

Assessment of Corporate Governance in Jordan: An Empirical Study

Mohammed Shanikat

Al-Balqa' Applied University, mohammed_shanikat@bau.edu.jo

Sinan S. Abbadi

Al-Balqa' Applied University

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Keywords

Corporate governance; Jordan; Jordan Securities Commission; Amman Stock Exchange; OECD



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Mohammed Shanikat¹² & Sinan S. Abbadi ¹

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¹ Al-Balqa' Applied University

² Mohammed_shanikat@bau.edu.jo

Introduction

Several authors such as Brown and Caylor 2006; Demirag, Sudarsanam and Wright 2000; Gregory 2004, Mangena and Chamisa 2008 revealed that financial crises and failures positively motivated both developed and developing countries to publish better corporate-governance codes; these have changed the landscape of corporate governance – in other words, the rules that direct and organise a business's management structure and ownership (Brenes, Madrigal & Requena 2009). "Corporate governance comprises three different elements: the stockholders' assembly, the board of directors and the top management team" (Brenes et al. 2009, p.1). In general, corporate governance is the way the relationships among all parties with interests in the business are regulated and organised. The aim is usually to maintain the rights not only of shareholders, but of all stakeholders (Clarke 2003; Kim 2006). It incorporates a commitment to the application of standards for disclosure and transparency. The Organisation for Economic Cooperation and Development (OECD) stated that:

Corporate governance is the rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders like employees and creditors. It contributes to growth and financial stability by reinforcement of market confidence, financial market integrity and economic efficiency (OECD 2004, p.1).

The concept of corporate governance refers to the rules and standards that define the relationship between company management and stakeholders associated with the company: employees, suppliers, lenders, creditors, consumers, shareholders and bondholders (Kim 2006). The Cadbury Committee report defines it as "the system by which companies are directed and controlled" (Dunne & Morris 2008, p. 176). It is generally known as the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations (Dunne & Morris 2008). It concerns the ways in which a chief executive officer can enhance corporate performance and obtain a fair return on the corporations performance (Sueyoshi, Goto & Omi 2010). Also, it can be defined as the company's relationship with its shareholders in particular and with all its stakeholders in general (Chatrudee 2006). The concept of institutional governance revolves around promoting and achieving justice and transparency of public shareholder companies (Anandarajah 2004).

On the other hand, some commentators view institutional governance more narrowly, insisting that it is a fanciful term for the way managers and auditors fulfill their responsibilities to shareholders (Lin & Liu 2009).

The purposes of this study are to present the current legislative environment and institutional framework of corporate governance in Jordan and to establish an approach to assess the practice of corporate governance. Specifically, the assessment approach evaluates corporate governance practices by comparing the principles of corporate governance issued by the OCED in 2004 with the current practices in Jordan. This study also explores the possibility of implementing the OECD code of corporate governance efficiently.

The next section briefly reviews the principles of corporate governance issued in 1999 by the OECD. Section 3 presents the reality of corporate governance in Jordan. Section 4 presents the study methodology. Section 5 provides an assessment of corporate governance in Jordan. The final section offers conclusions and a recommendation.

Principles of Corporate Governance

During the last decade, the issue of corporate governance has been scrutinised by a number of international institutions such as the World Bank and the OECD; they sought to deal with this issue decisively (Abu-Tapanjeh 2009). In 1999, the OECD issued principles of corporate governance to support the development of legal and institutional frameworks (OECD 2004). The OECD principles were adopted by 30 member's countries (Abu-Tapanjeh 2009). These principles were concerned with applying corporate governance in both public and private companies, whether or not they traded in financial markets, to strengthen the efficiency of financial markets and the stability of the economy as a whole (Tariff 2006). Abu-Tapanjeh (2009) stated that the quality of corporate governance should be taken into account because it may contribute to increasing the efficiency of the economy, reducing the risk of crisis and introducing legitimacy into a market economy.

The first OECD principle is to protect the rights of shareholders, a crucial issue in the concept of corporate governance (Clarke 2003). Murphy and Topyan (2005) stated that the most important aspect of corporate governance is to protect the small shareholders who are not active, rather than the large and active shareholders. Procedures that protect shareholders lead to confidence in the institution (Klapper & Love 2004). These procedures include maintaining clear shareholder records and applying guaranteed methods to register property; providing information on a timely and regular basis; ensuring shareholders' rights to participate and vote in general shareholders meetings; and selecting members of the board (King & Wen 2011).

The second principle dictates that corporate governance should ensure the equitable treatment of all shareholders, including minority and foreign shareholders (OECD 2004). Strong implementation of corporate governance may enhance the a corporation's ability to protect the minority shareholders' rights (Chhaochharia & Laeven 2009). As all shareholders should have the same voting rights, they should be able to obtain sufficient information about their voting rights before they purchase shares.

The third principle focuses on the relationship between the corporation and stakeholders in creating value (OECD 2004). Sueyoshi et al. (2010) examined the relationship between governance variables, particularly composition and functions of the board of directors, and operational efficiency in Japanese firms. They found that efficient practices under the rules of corporate governance increase the value of the corporation.

The fourth principle is that corporate governance should ensure that the disclosure and transparency of all the issues regarding the corporation are properly established (OECD 2004). Enhancing transparency is one of the key attributes of corporate governance (Campbell & Keys 2002), and accurate and full disclosures should include the corporation's financial and operating results, objectives and strategies, ownership structure and governance (OECD 2004). Material information should be provided about members of the board of directors and key employees (Seal 2006). In addition, disclosure and transparency should demonstrate that the existence of policies and instructions are consistent with the laws and regulations relating to companies and to the nature of the business.

The fifth principle outlines the responsibilities of the board of directors (OECD 2004): the corporate governance framework should ensure the company rules or directions, the mechanism by which the board oversees management, and the board's accountability to the company's shareholders are all clearly observed particularly in Company Law. The board of directors should fulfill specific functions such as reviewing and monitoring all matters related to the performance of the corporation, selecting and monitoring key executives and developing a strategy for setting objectives (Hutchinson & Gul 2004). In addition, the board is in charge of reviewing plans and addressing gaps during the application of the business

process (Hutchinson & Gul 2004). In applying this principle actively, it is recommended that the chief executive officer and chairman positions should be separated (Black et al. 2010).

Corporate Governance in Jordan

Corporate governance in Jordan can be categorised into six dimensions: a legislative framework and government oversight, a capital market, disclosure and accounting standards, transparency in privatisation, effective supervision of the board of directors, preservation of property rights and protection of minority rights (Khoury 2003). These six dimensions are extensively stated in the Company Law of 1997 and its mandates of 2002, and some in the Securities Law of 2002. The controller of a company exerts a crucial role by enforcing the corporate-governance provisions of the Company Law (World Bank 2004).

LEGISLATIVE FRAMEWORK AND GOVERNMENT OVERSIGHT

The legislative environment in Jordan has been the basis for the development of procedures for good corporate governance (Al-Basheer 2003). A number of laws have been implemented, such as the Company Law, Securities Law, Banking Law, Insurance Law, Commercial Law, Law of Competition and Monopoly, Law of Investment Promotion and Law of Privatisation (Al-Jazi 2007). According to a study conducted by Al-Jazi (2007), these laws focus on the following matters related to corporate governance:

- The company's legal personality is independent of its shareholders. The financial disclosure of the company is also independent from the financial disclosure to its shareholders.
- The rights of ownership for companies and individuals include the disposition of assets and their transfer of ownership, mortgages or transfers of possession (in the case of movable property). The laws above govern the procedures and conditions of the acquisition and transfer of properties.
- The legal structure of limited-liability companies includes the following bodies: the board of directors, the general shareholders and the audit committee.

To regulate the accounting profession in Jordan and improve its corporate-governance environment, the Accountancy Profession Law No. 73 of 2003 was issued. The law is considered a critical part of corporate governance in Jordan because it provides a base for measuring a firm's performance. Moreover, among other measures, it increased the role of the Jordanian Association of Certified Public Accounting (JACPA) and established the High Council of Accounting and Auditing. Although the law primarily focuses on the regulation of JACPA, it ignores factors such as the independence of auditors and compliance with auditing standards and professional ethics that could contribute to the improvement of the auditing profession (World Bank 2004).

The Company Law provides some corporate governance rules in regards to the auditor of the corporation. It states requirements for what should be contained in the auditor's report and the way of appointing the auditor. The Company Law allows for the appointment of an auditor in an annual general shareholders' meeting for a period of one year; the auditor should not be removed during the period of auditing except for reasons specified in the law. The independence of the auditor is protected by the law. The auditor reports an opinion about the financial statements to the general shareholders based on international standards of auditing and the law.

INSTITUTIONAL FRAMEWORK - CAPITAL MARKET

Mangena and Chamisa (2008) have argued that building an institutional framework is the foundation of the best practice of corporate governance. In Jordan, the Securities Law created three important bodies: the Jordan Securities Commission (JSC), the Amman Stock Exchange (ASE) and the Securities Depository Center (SDC). They have a financial and administrative independence. The JSC consists of five independent members with full-time experience and competence. According to the Securities Law, its purpose is to protect investors from fraud and manipulation, provide an appropriate environment for safe trading in securities, and develop and monitor the stock market. According to the Securities Law, listed companies are subject to the control of the multi-related securities, such as licensed securities, accredited securities and exporters.

Furthermore, the Securities Law provides an approach for activating the rules of governance: it defines market regulations, the issuance of shares or bonds and trade procedures. It also articulates the responsibility and obligations of issuers of securities, brokers and auditors, as well as the requirements for listing in the stock market, protection procedures for minority rights and requirements for the disclosure of important information. In order to maintain transparency, the law prohibits party transactions, promoting rumours, misleading investors and disclosing any matters that may adversely affect the capital market.

DISCLOSURE AND ACCOUNTING STANDARDS

Full disclosure and clear accounting standards are necessary for solid corporate governance (Rajagopalan & Zhang 2008). Therefore, the Company Law, the Banking Law, the Insurance Law, and the Securities Law require corporations to follow internationally accepted accounting and auditing standards. In 1994, Jordan fully adopted the international accounting standards, now called the International Financial Reporting Standards (Word Bank 2004).

TRANSPARENCY IN PRIVATISATION

During the 1990s, the Jordanian government adopted economic reforms aimed at increasing the private sector's involvement in the economy; these included privatising some governmental companies and institutions (Shanikat 2007). The nature of the activities of these governmental companies and institutions requires them to be executed on a commercial basis in order to improve the level of services provided and raise the efficiency of the companies being privatised (Shanikat 2007). The Privatisation Law No. 25, enacted in 2000, formed a council for privatisation that has the authority to specify the value of the government's contribution to companies. This law is considered one of the generators of good corporate governance, as it stipulates the transparency of the sale process, the disposal of privatisation revenues and compliance with the rules of transparency, openness and fair competition.

EFFECTIVE SUPERVISION OF THE BOARD OF DIRECTORS

The supervision of the board of directors is a crucial issue in corporate governance because the board is charged with advising, reviewing and evaluating the management (Gillan 2006). In Jordan, this also means that the board carries out the duties specified by the Company Law, including setting policies and planning for the management of the company and the appointment of the chief executive officer. The Company Law gives corporate management extensive power and obligations, including:

- Preparing the company's financial statements within three months of the end of the company's fiscal year, preparing the annual reports of the past year's performance and the prospects for the coming year and publishing the financial statements and annual reports within 30 days of the date of the AGM.
- Maintaining internal control systems for financial and administrative accountability.
- Inviting the company's shareholders to the AGM.

To enhance corporate governance and efficiently control board functions, the Company Law regulates the conduct of meetings. For example, by the law, any board members, including chairpersons, lose their membership in the council if they fail to attend four consecutive meetings without an excuse acceptable to the Council, or if they are absent from meetings of the board for six consecutive months, even with an acceptable excuse for absenteeism. In addition, the board or any member of it may be dismissed by the public authority at the request of the shareholders holding at least 30% of the shares of the company.

The Securities Law covers the creation of an audit committee stemming from the board members. It states that the committee reports to the board of directors, makes recommendations to it, and exercises the following powers and functions:

- Exercise control over the comprehensive audit.
- Review the external audit reports and follow-up actions, the annual internal audit plan and inspection reports.
- Audit financial statements before submitting them to the board of directors.
- Ensure the accuracy of accounting and regulatory procedures.
- Ensure overall compliance with laws and regulations.

The law also organises the audit committee's meetings, ensuring that the committee meets once every three months or more often if the need arises. In order to activate the meeting, the director of internal audit invites appropriate attendees to be present at the audit committee's meeting.

PROTECTION OF MINORITY RIGHTS

The Company Law allows all shareholders to redress violations of their rights. Shareholders holding at least 15% of capital can ask the Companies Control Department (CCD) to audit the company. Also, they can seek redress with the CCD and the court for any violations conducted by the company's board, general manager and auditors (World Bank 2004).

In 2005, the Amman Stock Exchange published the first edition of the Jordanian Code of Corporate Governance. This code's five chapters included definitions of key terminology; an overview of the board's structure and responsibilities; shareholder general meetings; shareholders' rights; and guidelines for financial disclosures along with a conceptual framework for accountability and auditing. The code also addressed issues of ownership structure and the characteristics of the capital market.

However, this code is not actually enforced. The Disclosure Department in JSC is in charge of applying these rules, and all parties associated with the companies are expected to promote their application. This might be implemented through strengthening the management performance and thus enhancing the performance of the national economy and promoting the investment climate (Jordan Securities Commission 2005).

Many of these rules were based on the binding legal texts contained in the legislation mentioned above. Generally, these are general rules, and, therefore, leave the details of their aspects and requirements to the relevant regulation. For example, there is no description of the information required in an annual report; this is left to the disclosure instructions of the issuance stock.

However, it must be noted that the business environment at the time was a motivating factor in adopting the Code. According to a study conducted by Khoury (2003), the distinctive 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 share-market 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.

Study Methodology

In this research, 20 interviews were carried out with key employees in 10 pioneer companies listed on the Amman Stock Exchange. These companies were chosen for several reasons: they are included in the stock index, their total capital market reaches JD 900 million and their shares are attractive to small investors.

The interview questions revolved around assessing the reality of corporate governance in Jordan in terms of protecting shareholders' rights, corporate board composition and key functions, the reality of disclosure and transparency of the information the companies provided. The participants were chief executive officers, chief financial officers, chief accountants, human-resources managers and managers of shareholders' affairs.

Assessment of Corporate Governance: Comparison with the Revised OECD Principles

The study provides a key assessment that draws attention to the implementation of the Code. Specifically, the assessment examines: (1) developing corporate governance that particularly focuses on the board's structure, role and functions; (2) determining the extent of disclosure and transparency provisions; (3) reviewing the Company Law to assess the extent of enforcement and compliance with revised OECD principles; and (4) highlighting the institutional framework for overseeing the implementation of the Code. Table 1 summarises the assessment of corporate governance in Jordan.

The protection of shareholders' rights includes secure methods of ownership registration, conveyance of transfer shares, the acquisition of relevant information on a timely and regularly basis, participation and the right to vote in shareholders' general meetings, election of members of the board of directors and a share in the corporation's profits. The Securities Depository Center is responsible for keeping shareholders' records and functions as a de facto center of ownership registration. The Center also handles the clearing and settlement of shares, which are transferable without any conditions. Periodic reports and audited annual reports should be provided to the JSC and the CDD. Also, some major events are disclosed upon occurrence. Shareholders have the right to participate in any general meeting, to vote and to elect members of the board. The voting system is "one share, one vote".

It seems that these rights are applied extensively, but there is no cumulative voting technique. This means that the big investors will get all the board seats. By the same token, it is difficult to remove any member. One interview participant provided the following comment:

I think, practically, small shareholders benefit only a little from their rights. For example, in this voting system you will never see any one of them a member on the board of directors. In fact, the possibility to change the current situation is small, because the majority of executives use their power to control how the related regulations are issued and applied. They are exercising the role of a pressure group.

Table 1
Result of the Assessment of Corporate Governance in Jordan

PRINCIPLE		ASSESSMENT BASE		COMMENT
		In Law	In Practice	
1	RIGHTS OF SHAREHOLDERS	Widely Covered	Widely Practiced	Shareholders participate in most fundamental decisions except major asset sales. Shareholders AGM rights are also mentioned, but there are no standard proxy forms and no provisions for postal voting.
2.	EQUITABLE TREATMENT OF SHAREHOLDERS	Partially Covered	Partially Practiced	The Controller sometimes acts on shareholders' complaints, but there is no formal complaint-resolution mechanism. There are solid regulations prohibiting insider trading. Related-party transaction rules are not clear.
3.	ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE	Covered	Practiced	Stakeholder rights are respected. Stakeholders have a number of legal protections, which are widely covered in the Company Law. Companies typically adopt performance enhancement measures, such as employee savings funds. Employees sometimes share ownership in some companies' issues. Annual reports, by law, contain stakeholder information.
4.	DISCLOSURE AND TRANSPARENCY	Covered	Practiced	Annual and semi-annual reports are provided, but only the annual report is required to be audited externally. Monitoring is limited only to quantity rather than quality of disclosures. There are no comprehensive and mandatory rules for corporate-governance disclosure. Jordan has fully adopted the IFRS and ISA standards for accounting and audits.
5.	RESPONSIBILITIES OF THE BOARD	Covered	Partially Practiced	The board is liable for ensuring compliance with the law. In practice, there is no difference between the management and the board; generally the chairman and CEO are the same person. Stakeholders' duties are not clear. The law and regulations determine specific standards related to functions that the board should fulfill. By the law, directors have a right to access all relevant information.

To ensure shareholders' rights, the controller should ensure that the process of the election of the board of director is conducted in a secret ballot. In this regard, one of the participants, number (5), commented as below and provided a suggestion for the current voting mechanism:

"The government should have a serious role in imposing a fair voting system. I think it is a critical issue because it generally affects the economy of the country. I think the government can do a lot, for example, in order to increase the participation of the small shareholders in the board of

directors, the controller on behalf of the government can apply vote on a particular expert among the small shareholders so we can at least guarantee one seat into a board of directors ".

Many regulations, particularly the Company Law, cover the participation of shareholders in general meetings. Shareholders should be given a sufficient amount of information about an upcoming general meeting (including date, location and agenda) in a timely manner. The agenda should not include unspecified items such as "other business issues". Shareholders have the right to add items to the agenda before the meeting. Annual general meetings are generally held within four to sixth months of the end of the financial year. Extraordinary meetings may be held under certain circumstances. The controller attends the annual general meeting; the JSC and the company's external auditor may attend as well. The chairman's statement, financial statements and auditor's report should be published in two local newspapers. Voting is allowed in person or by proxy.

Proxies should be standard, not requiring a notary endorsement. Postal voting should be allowed as well. Most of this study's interview participants believe that it is necessary for small shareholders to attend the general meetings because it is their most basic right, and the most convenient way to encourage their attendance is to send a personal invitation. However, one participant specifically disagreed with encouraging the small shareholders to attend the general meeting:

I think whether or not small shareholders attend the annual general or extraordinary meetings, nothing will change, because they don't have influence to impose their preferences or even provide suggestions. If the mechanism of voting changed then maybe they could participate effectively.

Corporate governance should ensure that all shareholders have the same voting system and that investors obtain sufficient and appropriate information before making their investment decisions. In practice, the Company Law gives shareholders the right to take direct action against the directors, the general manager and the company's auditor in the event that they obtain inadequate disclosure. The shareholder can seek compensation with the CCD, who has a great deal of power in certain matters such as investigation and intervention. The law forbids directors, executive managers and employees from trading on information and revealing it to others. According to the law, they are subjected to fines and liable for any matter that may harm the company. According to the Securities Law, the JSC now monitors insider transactions automatically and compares them with its database. The Company Law also prevents party transactions, particularly between the board of directors, executive manager or any other insider knowledgeable of the company excluding family members. Also, according to the law, loans to the directors are forbidden.

While the laws and regulations cover the equitable treatment of shareholders, related-party transactions do not have a clear definition that includes affiliated and family-controlled companies. International financial-standards reporting requires disclosing any transactions that may affect the company as notices in the financial statements. Enforcing the disclosure should be a JSC priority and the audit committee should investigate all matters related to party transactions; however, the majority of companies have no audit committee.

The Labor Law and Company Law also cover employee rights. The employee has the right to form professional unions, but these unions tend to be inefficient in practice. The Labor Law sets the minimum labour wage at JD 140 per month (US\$200 per month), but it is not fully implemented. Also, there is no clear procedure for employees to seek equity if directors violate the law. One manager commented:

I think labour rights aren't guaranteed. For example, nowadays the management of any company can expel any employee without any reason, pretending this matter is due to restructuring the company, and the laws permit this. Regarding the minimum wage, I think a lot of companies don't apply it. If they apply it, they reduce other rights. Regarding the role of labour unions, unfortunately, the majority of their leaders are looking out for their own interests, looking for social and political position and forgetting the labour rights and those who elected them to defend their rights.

The Company Law protects creditors' rights, so creditors can stop the reduction of a company's capital. Also, the law provides special protection to the bondholders, so they have the right to form an assembly to safeguard their rights. According to the Company Law, creditors, bondholders and shareholders can raise an objection to the controller and have the right to make a claim against the directors in the case of a violation of the law. While the employees do not have any rights in terms of accessing and obtaining information and participating in decision-making, the Company Law states that companies must show in their annual reports information about the staff structure and other issues related to employees, such as the hiring policy, the number of employees and training programs. One manager commented on the issue of training:

The companies, especially the large ones, now are taking into account the need for qualified employees. They believe that as much as they have skilled employees it is possible to achieve their objective perfectly. So, a lot of companies set hiring rules to attract only qualified employees.

Corporate governance should ensure that full disclosures are made in all matters related to the company. The Company Law and Securities Law, in particular, cover this principle extensively. Audited financial statements are sent to the Jordan Securities Commission during the three months after the end of the financial year. All events that could affect the company's future performance, such as the company's profitability and financial position, must be disclosed in the annual report. In practice, a company's objectives are set before registration at the Ministry of Industry and Trade. The board of directors is obligated to report the company's general plan for the coming three years.

The information in annual reports should be declared to the public immediately after providing it to the JSC. The JSC should increase its efforts to ensure timely declarations. Annual reports contain information about the board of directors such as the number of their shares, the duration of their membership and their annual compensation. Any investors who hold at least 5% of shares should be disclosed. Environmental issues should be included in the annual report. All these issues and others are observed largely in both, or covered by both, the Company Law and the Securities Law.

The Company Law states that listed companies should adopt International Financial Reporting Standards (IFRS) and International Standards Accounting (ISA). Auditors' opinions must be in accordance with IFRS, and financial statements must agree with the company's records. In practice, financial statements and related information are reviewed by the auditor. The auditor is appointed in the annual general meeting, but in practice, the board of directors, not the audit committee, is in charge of the nomination of the auditor. Many issues related to the auditor, such as audit fees as discussed in the AGM, auditor attendance of the AGM, and clarification to the shareholders about the content of financial statement information, are covered in the Company Law. In general, financial statements appear to be prepared according to high standards since the adoption of IFRS.

The auditing market is dominated by the big auditing firms and a few smaller national auditors. However, the majority of the auditing firms operating in Jordan are of low quality. According to the new Accounting Law, which was issued in 2004, an auditor obtains a license from the Higher Auditing Commission. Some of these issues were commented on by one of the managers:

I worked as assistant auditor for more than five years. I had several attempts to pass the auditing test in order to get licensed as a Jordanian CPA, but unfortunately, I failed, like a lot of people. I think the main reasons behind that are that there are a few old auditors who are dominating the auditing market and they don't allow a new professional to enter this sector. Another reason is in regards to the exam itself. There are no clear subjects, no specific books and no specific committee to manage the exam. Now, I have been working in the banking sector for more than 10 years, and to my knowledge, I have never heard that an auditor issued an adverse or disclaimer opinion.

Concerning responsibility of the board of directors, the corporate governance framework should insure a regular controlling of management, and the accountability of the

board to the company and the shareholders. In Accordance with the Company Law, a board consists of between three and 13 members. The directors must be shareholders and should be elected by them in the annual general meeting. They are elected for a four-year term and can be removed before the end of their term. One director can be elected as a chief executive officer. In Jordan, directors and management of companies are usually dominated by a few business families, so boards' accountability, liability and independence are questionable. One manager asserted:

I think the boards of directors aren't active and their independence, in practice, isn't applied efficiently. The reason behind that is a majority of shareholder companies are managed by families. Although these companies are pioneers in their industry and their performance is successful, the problematic issue is that the board's first priority is to fulfill the family's interests in term of profitability and increasing their wealth. I think the law should establish rules to prevent such situations. I mean the law should guarantee diversity within the boards. I think such actions will enhance the companies' performance. I would like to point to another issue, that the governmental representative, unfortunately, is not active and is just applying the government's orders, sometimes regardless of the company's interest.

The Company Law and Securities Law consist of several articles that manipulate issues related to boards of directors, such as their composition, role, functions, accountability, responsibility and independence. Policymakers should also consider issues such as encouraging the independence and enhancing the diversity of board members' technical and business backgrounds. In addition, although the JSC-issued guidelines for corporate governance provide detailed rules for boards of directors in Jordan, these guidelines still need the power of enforcement behind them. The Corporate Governance Code should ensure that new boards obtain full information about the company. This issue was pointed out by a manager:

I believe that the company must provide a full and comprehensive file that contains information about the company so that the new members of board would be familiar with the company's conditions; this information should include the company's weaknesses and strengths. I think it's the right of each member of the board of directors to get full knowledge about the company's development.

The Company Law extensively covers the board's functions. The board is considered the top level of the corporation and is responsible for monitoring and achieving the company's goals and plans (which are, to a large extent, set at the annual general meeting). The board also appoints, compensates and replaces the chief executive officer. The board submits the audited financial statements, which are reviewed by the audit committee at the annual general meeting. The board is responsible for the accuracy of all information, financial and non-financial, included in the annual report. The annual report should be signed by the chief executive officer and the chief financial officer. Also, the board's compensation is determined by law at 10 percent of the net profits, not to exceed a maximum of JD 5000⁴ per year. It is obvious that the board's key functions are largely observed in Jordanian companies.

Conclusions and Recommendations

This study's primary contribution to the literature is the mechanism of assessment of corporate governance, by taking into account the major corporate governance principles issued by OECD basic shareholders rights, equitable treatment of shareholders, the role of stakeholders in corporate governance and disclosure and transparency. The paper makes five additional contributions to the literature.

⁴ JD 1= US\$ 1.42.

Basic shareholder rights are examined. Shareholders participate in most of the fundamental decisions except major asset sales. Shareholders' rights regarding annual general meetings are noted, but there are no standard proxy forms and no postal voting.

Equitable treatment of shareholders virtually does not exist. The CCD sometimes handles complaints from shareholders, but there is no formal mechanism. Insider trading is prohibited by solid insider-trading regulations. Related-party transaction rules are not clear.

Stakeholders have a significant role in corporate governance, and stakeholder rights are respected. Stakeholders have a number of legal protections under the Company Law. Companies typically adopt performance enhancement, such as employee savings funds. Employees sometimes share ownership in some company issues. By law, annual reports contain information about stakeholders.

Annual and semi-annual reports offer some disclosure and transparency, but only the annual report must be audited by an external auditor. Monitoring is limited only to quantity rather than quality of disclosure. There are no comprehensive and mandatory rules for corporate-governance disclosure. Jordan has fully adopted IFRS and ISA as their standards for accounting and auditing.

The board is liable for ensuring compliance with the law. In practice, there is no difference between the management and the board, as generally the chairman and chief executive officer are the same person. Furthermore, stakeholders have no clear duties. The laws and regulations are determined by specific standards related to functions that the board should fulfil. Under the Company Law, directors have a right to access all relevant information.

Future research papers will focus on the effect of corporate-governance codes on firms' performance. At the end of the last decade of the 20th century and the beginning of the 21st, many of the Jordanian governmental companies have privatised; thus the relationship between corporate governance and newly privatised companies could be another rich area to study.

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