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The Extent of Applying Corporate Governance in the Jordanian Industrial Companies and Its Effect on Financial Performance

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ABSTRACT

Background: This study searched in the extent of disclosing the corporate governance by the Jordanian industrial corporate and its effect on financial performance. **Objective:** The study aims to find out the extent of the application of the guidance of corporate governance in the industrial companies in Jordan and their impact on the financial performance. **Results:** From the analysis, results the public shareholding industrial companies used to apply the guidance of the corporate governance. **Conclusion:** the public shareholding industrial companies principles and there is a statistical significant relationship between the application of the principles of the corporate governance and the return on assets (ROA) and return on equity (ROE) for the industrial Jordanian companies.

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INTRODUCTION

The concept of corporate governance was associated with the financial crises around the world. Specialists assured that these crises happened as a result of the weak crises laws, legislation, and non-efficient risk managing. These crises have played a great role in creating laws and legislation to regulate the corporations work, therefore to reinforce the corporate governance regulations, to active and apply risk management. (Tourani- Rad and Inglely 2010)

The importance of governance was appeared after the huge investment, which required a regulations, that link the relationship between the investors and companies managers. For this the corporate governance was used as controller and regulator of the company's financial performance. (Maher and Andersson, 2000)

There was a lot of discussions between the development countries, academic and technical sectors about the influence of corporate governance on the companies performance, and her protection of the contributors interests. However the agreement of the importance of corporate governance didn't merger the regulation in on law to all countries, as the principles of corporate governance affected by different factors, which depends at each country (IFC, 2009).

Jordan is one of the developing countries, which is influenced by different economic and political variables all these factors may affect in its economy,

on the companies performance, and on the application of the control supporting systems. In, 2004 the governance foundations was forming, establishing in Jordan, in order to take the care of different sector. the governance principles in Jordan became very important in different sector in general, and particularly on the level of the public contributors companies, accordingly, the securities commission issued rules of corporate governance in 2008 and started to apply in 2009 (securities commission, 2009).

This study is considered as an adding to the previous studies about guidance of corporate governance this study gives a clear evidence about extent of applying. In the developing countries mainly Jordan because of the scarcity of studies held there.

The problem of the study:

Collapsing of many companies resulted in the loss of the rights of the owners of interests especially the investors and the loss of confidence in the accounting information.

Therefore, this study was to answer the following question:

1. Are the Jordanian shareholding industrial companies committed to disclose the guiding rules related to corporate governance ?
2. Is there any effect for the extent of disclosing the guiding rules of the governance corporate on Financial Performance ?

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Objectives of the study:**This study aims at:**

1. Disclosing the extent of the commitment of applying the guidance rules of the guiding of the Jordanian shareholding public industry Companies.

2. Measuring of the disclosing of the guiding rules of the guiding book of the corporate governance and its effect on Financial Performance.

The importance of the study:

The importance of the study emphasizes the necessity of disclosure of corporate governance in the Jordanian economic environment and to get benefit from the accounting information which also effect on the decisions of the investors and protecting of the rights of the shareholders to contribute in the success of the companies and the continuity of them.

Hypotheses of the study:**The study searches in the following hypotheses:**

H1: The Jordanian shareholding public industrial companies are not committed in applying the guiding rules related to governance corporate.

H2: No evidence to refer statistically to the extent of disclosing the guiding rules of the

governance corporate and its effect on return on assets (ROA).

H3: No evidence to refer statistically to the extent of disclosing the guiding rules of the governance corporate and its effect on return on equity (ROE).

Sources of collecting data:

Data is collected through the scientific resources, book, researches and essays the industrial companies financial reports are analyzed to get special data related to the guiding rules of the corporate governance.

Samples of the study:

Samples of the study consist of the Jordanian shareholding public companies estimated at 79 industrial companies according to Amman stock market classification in 2014. These samples were chosen because of importance of the economics sector in which the industrial sector contributes in economic growth in increasing GDP.

The Hypothesis result:**Hypothesis 1:****Table 1:** The of guiding rules corporate governance

| The level of importance | Standard deviation | SMA | Governance rulers |
|-------------------------|--------------------|--------------------|---|
| 2 | 0.86 | | |
| | 3.45 | Board of Directors | |
| 4 | .84 | 3.49 | for the meetings of the public commission of the company. |
| 3 | 0.85 | 3.56 | the rights of shareholders. |
| 1 | 0.86 | 4.45 | disclosure and transparency |
| | | 3.775 | |

The result organized in table (1) show the degree of applying the guiding of the corporate governance in the public industrial companies.

The standard deviation of the guiding of corporate governance and arithmetic averages recorded an arithmetic averages 3.775, therefore, after comparing this average with the measurement

average (3) in this study, it has become clear to refuse this hypothesis (The Jordanian shareholding public industrial companies are committed in applying the guiding rules related to governance corporate).

Hypothesis 2 .3:**Table 2:**

| ROE | ROA | correlation coefficient |
|------|------|---------------------------------|
| 0.61 | 0.58 | Corporate governance principles |

Table no .2 shows that the relationship between the principles of corporate governance and return on assets (ROA) and return in equity (ROE) has reached a coefficient positive direct correlation, therefore, the hypothesis (H0) is refused and the alternative hypothesis is accepted.

There is a statistical relationship between the application of the corporate governance principles and the return on assets, return on equity.

Conclusion:

The result of the study should that the public shareholding industrial companies principles and there is a statistical significant relationship between

the application of the principles of the corporate governance and the return on assets (ROA) and return on equity for the industrial Jordanian companies.

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