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The Impact of Corporate Governance on Financial Performance: A Comparative Study among Palestinian and Jordanian Banks

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Abstract Corporate governance has gotten a lot of attention recently. In most of the world's countries, the companies are intending to increase the efficiency of their work and management, and hence their profits and success rates. This research aims at examining corporate governance’s impact on financial performance. It also makes a comparison in the context of Jordan and Palestine. This study also focuses on the board of directors’ characteristics in terms of board size, independence, meetings, qualifications, and gender diversity methods of internal governance. To assess the firm's performance, four indicators were employed: Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Operating Cash Flow (OCF). The researchers' views varied to classify the role of the board on financial performance, which represents a key element in corporate governance. This study is applied to the Jordanian banks on the Amman Stock Exchange in addition to the Palestinian banks on the Palestine Stock Exchange in the period 2012 to 2019. The SPSS software is used to perform the statistical analysis and check the research hypotheses using descriptive statistics, multicollinearity tests, and OLS regression. The results of the study show variations in board characteristics impact firm performance in the context of Jordan and Palestine. However, there are consistent results. As the regression found, the size of the board and gender diversity have a significant and negative impact on firm performance in the context of both Jordan and Palestine. The regression also found that board independence has a significant and positive impact on firm performance in the context of both Jordan and Palestine. The results of the study also show that there are differences in the governance structures applied in Jordan and Palestine. The findings show how the organization of the board affects the company’s performance, which is considered useful information for policymakers.

Keywords Corporate Governance, Firm Performance Board of Directors, Jordan, Palestine

1. Introduction

In the last years, the globe has experienced multiple cases of financial and business collapse, which have exposed several significant international corporations to charges of financial and administrative misconduct. For example, the collapse of the big banks triggered the 2008 financial crisis. The failure of these companies raised doubts about the financial reporting process and its reliability. In other words, the methods employed in managing companies' affairs, as well as the standards that govern the behavior of managers working in them, are among the causes of financial crises and collapse.

On the other hand, many managers lack the capacity to

carry out their professional obligations and responsibilities. As a consequence of these crises and collapses, many Stakeeholders suffered significant material losses, prompting many investors to look for firms that use the notion of corporate governance to safeguard their interests and maximize their wealth.

Corporate governance is concerned with how and why businesses are governed. It determines who has responsibility and power, as well as who makes decisions. It is, at its core, a mechanism that assists administrators to deal with the difficulties of effectively running a business. Corporate governance guarantees that organizations have suitable decision-making procedures and guidelines in place to match the rights of stakeholders [1].

Corporate governance has set rules and standards that contribute to improving performance and providing effective oversight. It has also become one of the main pillars upon which economic units must be based to address administrative and financial reform processes. Recently, there has been a lot of discussion concerning whether corporate governance influences firms, that is, whether good corporate governance helps a company operate better. Corporate governance is a subject that needs to be addressed, particularly in this area of economic and financial globalization, which is significant for developing countries such as Jordan and Palestine.

2. Literature Review

Corporate governance issues have driven the attention of governmental bodies and the public at large due to the obvious impact on an organization's economic and social health, particularly following the corporate scandals of WorldCom, Enron, and others [2]. The board supervises and controls the managers' effectiveness as representatives of the firm's multiple owners and stakeholders, according to agency theory [2]. Therefore, the board of directors is a critical issue in corporate governance systems, with various tasks that include coordinating and controlling senior management [3]. In other words, the stakeholders have entrusted the board of directors with efficiently monitoring and controlling the companies. As a result, the size, independence, meetings, qualifications, and gender diversity of the board are all examined in this study. as methods of internal governance that can affect firm performance.

2.1. Firm Performance and Board Size

According to agency theory, a large board increases corporate efficiency by allowing for better supervision by a diverse group of people [3]. In other words, more directors monitor and oversee the firm's performance to defend the best interests of all stakeholders when the board is large [2]. These discussions and suggestions are proved in the accounting literature. For example, a big board size was discovered to have a significant positive impact on the performance of the company in a study conducted on Jordanian industrial firms [4]. Similarly, [2, 5-8] found that large board size is a significant determinant for firm performance. However, large boards may create coordination and communication problems that may negatively affect the monitoring function and thus firm performance [9]. For example, in India, larger boards of directors were found to have a significant negative impact on corporate performance [10]. According to the discussion above and most of the empirical evidence, the researcher hypothesizes the following:

H1: Larger boards have a significant positive impact on firm performance.

2.2. Board Independence and Firm Performance

Many previous studies have been conducted on board structure, particularly emphasizing the crucial function of independent directors in protecting stakeholders' rights in areas needing efficient decision control [11]. To protect the interests of stakeholders, independent directors are appointed from outside the company to oversee management's performance. A higher percentage of independent directors, according to [3], will result in improved monitoring of the managers' operations. Furthermore, increasing the number of independent directors on the board, in accordance with agency theory, can boost firm performance [12].

Regarding empirical evidence, the results are mixed. For instance, it was found that board independence has a significant positive impact on performance [7]. But it was discovered that board independence has a negative impact on performance [13]. Sobhan [8] found that board independence doesn’t have a significant impact on performance. According to the discussion above and most of the empirical evidence, the researcher hypothesizes the following:

H2: Independent directors have a significant positive impact on firm performance.

2.3. Firm Performance and Board Meetings

According to [14], the most common challenge directors encounter is the insufficient time to carry out their responsibilities. Furthermore, board meeting time is a crucial element for increasing a board's efficiency [15]. Therefore, the frequency with which the board meets reflects the board's activities and the extent to which the company's directors are connected [16]. This is to say that the firm might obtain more vital information from board discussions that reflect on improving firm performance. Regarding the empirical evidence, the results are mixed. For example, a positive connection was found between the frequency of board meetings and firm performance [17]. However, board meetings were found to have a negative impact on firm performance [6]. According to the

discussion above and most of the empirical evidence, the researcher hypothesizes the following:

H3: Board meetings have a significant positive impact on firm performance.

2.4. Firm Performance and Board Qualifications

In general, the board's academic qualification has a considerable impact on organizational outlook, firm performance, and business strategy models [18]. Therefore, researchers such as in [19] argue that the financial qualifications of boards combined with specialized knowledge have a good impact on business success. For example, it was found that firms having a director with a background in finance or accounting are more likely to boost earnings than firms with directors with no background in these fields [20]. In a study conducted in the healthcare sector in Nigeria, it was found that the board's financial background has a significant and positive effect on firm performance [21]. These findings highlight the importance of the financial qualifications of board members regardless of other educational backgrounds. According to the discussion above and most of the empirical evidence, the researcher hypothesizes the following:

H4: Financial qualifications of the board have a significant positive impact on firm performance.

2.5. Firm Performance and Gender Diversity

Recently, public discussion, academic study, and regulatory environment have focused on how gender diversity within company boards influences business performance. Female directors are thought to be diligent workers with effective communication skills who are proactive in meeting commitments [22]. Therefore, there is a general argument that gender diversity is associated with more effective boardroom discussions and board member interaction [23]. Female directors can develop innovative ideas and abilities that will reflect positively on firm performance [24]. For example, [25, 8] found that female directors are related positively and significantly connection to firm performance.

However, it was argued that most women directors are appointed due to family relationships, rather than educational qualifications or job experience [26]. This discussion is proved by evidence showing that gender diversity has no significant impact on firm performance as in [27,28]. According to the discussion above and most of the empirical evidence, the researcher hypothesizes the following:

H5: Gender diversity within the board has a significant positive impact on firm performance.

3. Methodology

3.1. Sample Selection

For the period 2012-2019, the study sample includes all Jordanian banks registered on the Amman Stock Exchange (15 banks). For the period 2012 to -2019, the study sample includes all Palestinian banks listed on the Palestine Financial Market (7 banks)

3.2. Study Variables and Models

Panel data, which is a blend of cross-sectional and time-series data, is used in this study. It uses annual data covering successive periods of the study between and (2012-2019) and at the level of the banking sector simultaneously. To achieve the study objective of examining the impact of governance on financial performance, the dependent variable is assessed by Return on Assets (ROA), Return on equity (ROE), Earnings per Share (EPS), and Operating Cash Flow (OCF). ROA, ROE, EPS, and OCF are widely used indicators in the literature for firm performance [8, 25].

Concerning the independent variable of corporate governance, it is measured by the characteristics of the board in terms of size, independence, meetings, gender diversity, and the qualifications of the members. Table 1 shows the variables of the study and the measurement.

Four multiple regression models will be estimated to test the study's hypotheses due to the study's reliance on four variables to quantify the company's performance (ROA, ROE, EPS, and OCF)

Model (1):

$$ROA_{it}=\beta_0+\beta_1+\beta_2BI_{it}+\beta_3BM_{it}+\beta_4GD_{it}+ + \beta_5BQ_{it}+\beta_6AGE_{it}+\beta_7SIZE_{it}+\varepsilon_{it} \quad (1)$$

Model (2):

$$ROE_{it}=\beta_0+\beta_1BS_{it}+\beta_2BI_{it}+\beta_3BM_{it}+\beta_4GD_{it}+ + \beta_5BQ_{it}+\beta_6AGE_{it}+\beta_7SIZE_{it}+\varepsilon_{it} \quad 2)$$

Model (3):

$$EPS_{it}=\beta_0+\beta_1BS_{it}+\beta_2BI_{it}+\beta_3BM_{it}+\beta_4GD_{it}+ + \beta_5BQ_{it}+\beta_6AGE_{it}+\beta_7SIZE_{it}+\varepsilon_{it} \quad (3)$$

Model (4):

$$OCF_{it}=\beta_0+\beta_1+\beta_2BI_{it}+\beta_3BM_{it}+\beta_4GD_{it} + \beta_5BQ_{it}+\beta_6AGE_{it}+\beta_7SIZE_{it}+\varepsilon_{it} \quad (4)$$

Table 1. Descriptions of Study Variables

Variables	Symbol	Measurement of Variables	Expected Relation
Dependent Variable: Firm Performance			
Return on Assets	ROA	Net Income/ Average Total Assets	
Return on Equity	ROE	Net Income/ Shareholders' Equity	
Earnings per Share	EPS	Net Profit/ Outstanding Shares	
Operating Cash Flow	OCF	Net cash from operating activities at the end of the fiscal year	
Independent Variable: Corporate Governance			
Board Size	BS	Number of members on a board	+
Board Independence	BI	% of independent directors on a board	+
Board Meetings	BM	Number of board meetings during the year	+
Gender Diversity	GD	% of female directors on a board	+
Board Qualification	BQ	% of financial qualifications in the board	+
Control Variables			
Bank Age	AGE	Time length of firm establishment	+
Bank Size	SIZE	Log of firm's total assets	+

Table 2. Descriptive Statistics of Study Variables

	Jordan				Palestine			
	Min	Max	Mean	Std.	Min	Max	Mean	Std.
ROE	1.14	17.66	8.7500	3.52731	2.36	19.20	10.3994	4.42771
ROA	0.05	2.05	1.1460	0.46107	0.01	1.70	0.7163	0.51467
EPS	0.01	0.68	0.2047	0.14409	0.06	0.88	0.2149	0.13726
OCF	11716854	5555812000	708445571.24	1255505557.090	2779382	564145672	138581392.37	166380016.771
BS	5	15	10.73	1.990	5	12	9.12	2.202
BI	0	0.75	0.3759	0.10725	0.09	0.50	0.3136	0.09336
BM	4	14	7.25	1.589	5	10	6.94	1.474
GD	0	0.38	0.0796	0.08608	0.00	0.33	0.0612	0.08428
BQ	0.09	0.75	0.3798	0.15927	0.00	0.67	0.3274	0.20051
AGE	17	89	42.83	16.411	1	59	23.73	17.036
SIZE	8.00	10.42	9.3617	0.42683	6.66	9.81	8.6428	0.97215

4. Results

4.1. Descriptive Statistics

Table 2 explains the descriptive statistics of the study variables. As shown, differences are found in the structures of corporate governance applied in Jordanian listed banks and Palestinian listed banks.

As shown in Table 2, in the context of Jordan the mean of ROE reached 8.7500 compared with 10.3994 in the context of Palestine. This result indicates that in general, Palestinian banks are more efficient in managing shareholder money to generate income compared with Jordanian banks. Regarding the ROA ratio, Jordanian banks have a mean of 1.1460 compared with 0.7163 for Palestinian banks. This result indicates that Jordanian banks tend to be more efficient in generating earnings from their assets. On the other hand, the EPS ratio is not different, as Jordanian banks have a mean of 0.2047, while Palestinian banks have a mean of 0.2149. Regarding OCF, Jordanian banks have a mean of 708445571.24 compared with 138581392.37 for Palestine.

Table 2 also shows the general structure of the board at Jordanian banks and Palestinian banks. Boards are large on

both sides, as the mean Board Size (BS) is 10.73 and 9.12 for Jordanian banks and Palestinian banks, respectively. Regarding Board Independence (BI), the descriptive statistics show that the mean BI reaches 0.3759 and 0.3136 for Jordanian banks and Palestinian banks, respectively. In general, this result indicates that the independence in both Jordanian and Palestinian banks is relatively low. On the other hand, Table 2 shows that there is an interest in frequent meetings at Jordanian and Palestinian banks, as the mean of both reach 7.25 and 6.94 respectively. Regarding gender diversity, at Jordanian and Palestinian banks, the female director’s ratio is low; 0.0796 for Jordanian banks, and 0.0612 for Palestinian banks. In Jordanian banks there are more financial qualifications on the boards as the mean of Board Qualifications reaches 0.3798 compared with a mean of 0.3274 in Palestinian banks.

4.2. Multicollinearity

When performing a multiple regression analysis, the assumption of multicollinearity between independent variables is critical. Once multiple independent variables are directly correlated with one another, it is difficult to determine each variable's contribution to predicting the dependent variable [29]. According to [30and overall correlation between any two independent variables is deemed high if it reaches 70%. A detailed correlation matrix encompassing all variables was conducted to examine the magnitude of this problem by the existing regression model. The correlation matrix is represented in Table 3 and Table 4. It shows that there are no strong correlations between the independent variables, which could indicate the presence of a multicollinearity problem.

Table 3. Correlation coefficients (Jordan)

	BM	**BS**	**GD**	**BI**	**BQ**	**AGE**	**SIZE**
BM	1						
BS	.207*	1					
GD	-0.010	0.063	1				
BI	0.082	-0.006	.203*	1			
BQ	-0.055	-.347-**	0.164	.225*	1		
AGE	-0.148	0.076	-0.010	0.132	-0.026	1	
SIZE	-.189-*	0.067	0.009	0.126	0.141	.605**	1

Table 4. Correlation coefficients (Palestine)

	BM	BS	GD	BI	BQ	AGE	SIZE
BM	1						
BS	-.403-**	1					
GD	0.009	.527**	1				
BI	0.129	-.518-**	-0.231	1			
BQ	-0.141	-.282-*	-0.076	0.220	1		
AGE	.394**	0.079	0.074	-0.067	-.392-**	1	
SIZE	.363**	-.335-*	0.179	0.173	0.147	.344*	1

4.3. Regression Results

Table 5 and Table 6 show the regression results in the context of Jordan and Palestine's performance.

As shown in Table 5, the regression indicates a significant negative impact between board meetings (BM) and firm performance using ROA and EPS (sig = 0.089 and 0.003). This result may indicate that the frequency of the meetings often does not indicate the quality of discussions that may lead to an impact on the company's performance. On the other hand, the regression found a significant negative impact between Board Size (BS) and firm performance using EPS (sig = 0.011). This result is consistent with [10], as they found that larger board size significantly negatively impacts firm

Regarding gender diversity, the regression found a significant negative impact on gender diversity on the board and firm performance using three measures: ROA, ROE, and EPS (sig = 0.025, 0.001, and 0.000), respectively. This result is consistent with [26] who argue that most women directors are appointed based on family links rather than educational qualifications or employment experience. On the other hand, using OCF the regression found a significant and positive impact between gender diversity and firm performance (sig = 0.017). The regression also shows an insignificant impact between Board Independence (BI) and firm performance using ROA EPS and OCF. However, using ROE as an indicator for firm performance, the results show a significant and positive impact between board independence and firm performance (sig = 0.026). This result is in harmony with the viewpoint of agency theory that suggests that the number of independent directors on the board can improve business performance [12]. Regarding board qualifications in finance, the regression found a significant and negative impact between BQ and firm performance using ROA. However, using OCF, the results show a significant positive impact of board qualifications on firm performance (sig = 0.000).

Table 5. Regression results (Jordan)

	Model (1)			Model (2)			Model (3)			Model (4)		
	ROA			ROE			EPS			OCF		
	Std. Err.	T	sig	Std. Err.	T	sig	Std. Err.	t	sig	Std. Err.	t	sig
Constant	-1.920	-1.842	0.068	7.882	-2.444	0.016	0.226	-7.425	0.000	-0.074	-1.247	0.215
BM	-0.150	-1.714	0.089	-0.142	-1.631	0.106	-0.183	-3.013	0.003	-0.034	-0.547	0.586
BS	-0.137	-1.481	0.141	-0.068	-0.742	0.460	-0.165	-2.574	0.011	-0.032	-0.555	0.580
GD	-0.197	-2.280	0.025	-0.280	-3.274	0.001	-0.252	-4.214	0.000	0.141	2.422	0.017
BI	0.037	0.421	0.675	0.198	2.261	0.026	0.046	0.745	0.458	-0.057	-0.909	0.365
BQ	-0.259	-2.733	0.007	-0.080	-0.858	0.393	-0.012	-0.180	0.858	0.357	5.070	0.000
AGE	-0.312	-2.937	0.004	-0.347	-3.296	0.001	0.000	0.002	0.998	0.518	7.156	0.000
SIZE	0.436	4.032	0.000	0.439	4.102	0.000	0.679	9.061	0.000	-0.074	-1.247	0.215

Table 6. Regression results (Palestine)

	Model (1)			Model (2)			Model (3)			Model (4)		
	ROA			ROE			EPS			OCF		
	Std. Err.	T	sig	Std. Err.	T	sig	Std. Err.	t	sig	Std. Err.	t	sig
Constant	1.015	2.771	0.008	5.754	-2.699	0.010	0.331	1.107	0.274	-0.20	0.453	0.654
BM	0.048	-2.057	0.046	0.272	-2.595	0.013	0.016	-1.485	0.145	-0.283	-1.826	0.079
BS	0.044	-3.431	0.001	0.251	-1.681	0.100	0.014	-0.997	0.324	-0.348	-1.536	0.136
GD	0.888	-1.757	0.086	5.032	-1.162	0.251	0.290	-0.961	0.342	0.006	0.030	0.976
BI	0.679	-1.235	0.223	3.845	-0.139	0.890	0.221	1.545	0.130	0.019	0.131	0.897
BQ	0.317	0.596	0.554	1.795	-0.735	0.466	0.103	-1.360	0.181	0.230	1.458	0.156
AGE	0.004	0.808	0.423	0.024	0.664	0.510	0.001	1.798	0.079	0.690	4.321	0.000
SIZE	0.074	0.300	0.766	0.418	7.040	0.000	0.024	0.189	0.851	0.125	0.758	0.455

As shown in table 6, regression found that the board meetings (BM) have a significant and negative impact on firm performance using ROA, ROE, and OCF (sig = 0.046, 0.013, and 0.079), respectively. However, using EPS, the results show an insignificant impact of firm board meetings on performance. Regarding the board size, the results show that the board size (BS) has a significant and negative impact on firm performance using ROA (sig = 0.001). However, using ROE EPS and OCF, the results are insignificant.

The regression results also show gender diversity has an insignificant impact on firm performance using ROE, EPS, and OCF. However, using ROA the regression found a negative and significant impact of gender diversity on firm performance (sig = 0.086). Board Independent (BI) has an insignificant impact on firm performance using ROA, ROE, EPS, and OCF. Regarding board qualifications, the regression shows the insignificant impact of BQ using all the indicators to measure firm performance.

5. Discussion and Conclusion

Although the evidence differs between supporters and opponents of the contribution of corporate governance to enhancing corporate performance, the evidence supporting each point of view may be inconclusive and requires further research. This study aims at investigating the impact of corporate governance on financial performance, in addition to making a comparison in the context of Jordan and Palestine. In general, there were some differences in the structures of the board of directors applied in Jordanian and Palestinian banks. With regards to examining the impact of the characteristics of the board on the financial performance, there were differences in the results which may be attributed to the difference in the size of the sample taken from each of the two countries. The number of Jordanian banks on the Amman Stock Exchange reached 15, while the number of Palestinian banks on the Palestine Stock Exchange reached 7. Nonetheless, some of the conclusions in the context of Jordan and Palestine were agreed upon. For example, the regression found that board size has a significant and negative impact on firm performance measured by ROA in the context of Jordan and Palestine. Besides, the results also indicate that gender diversity has a significant and negative impact on firm performance measured by ROE in Jordan and Palestine. Furthermore, Board Independence shows a significant and positive impact on firm performance measured by ROE in Jordan and Palestine. In general, these results indicate the role of the board in influencing the financial performance, which prompts Jordanian and Palestinian banks to maintain the application of corporate governance rules to ensure the sustainable positive impact of corporate governance on financial performance. The study's conclusions could aid the banking sector in boosting its financial performance by enhancing corporate governance. It will serve as the foundation to develop a bigger and more diverse corporate governance mechanism that will help the banking industry expand and improve its capacity to combat fraud and function as a preventative measure. Furthermore, it provides valuable knowledge into the banking sector's use of this method. Aside from that, this research is a valuable source of information for academics, administration managers, investors, and regulators who are attempting to develop a banking framework through better banking governance practices. As a result, regulators might use the findings of this study to develop new ways to enhance the structure of banking boards and risk management frameworks. This aims to reduce the severity of agency problems and boost stakeholder confidence. The findings of the study contribute to the field of accounting literature as they provide new evidence by conducting a thorough evaluation of the features of the board that may have a role in influencing financial performance. Then again, the findings of the study help policymakers and governance structures by concentrating on the features of the board, which is a critical internal governance mechanism. Therefore, focusing on governance structures to improve the financial performance of banks will lead to attracting capital and foreign investments, as this point is considered one of the social contributions of the study. However, the study includes some limitations, represented in the fact that the current study is limited to the banking sector only, as it is not possible to generalize the results of the study to the rest of the sectors. The study also focused only on the 13 banks listed on the Amman Stock Exchange and the 7 banks listed on the Palestine Stock Exchange, ignoring the rest of the banks, as the results could differ if the sample included all commercial banks.

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