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COMPLIANCE WITH THE PRINCIPLES OF CORPORATE GOVERNANCE: DIFFERENT PERSPECTIVES FROM JORDAN

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ABSTRACT

This study aims to determine the extent to which Jordanian banks comply with the principles of Corporate Governance from the viewpoint of the related regulatory bodies. We rely on the corporate governance topics discussed in the World Bank's ROSC Report. Sixty postal questionnaires have been distributed randomly to the Audit Committee Members in Jordanian Banks, Control and Governance Department in the Central Bank of Jordan and in the Jordan Securities Commission (JSC), to empirically explore the extent of compliance with the OECD's Principles of Corporate Governance from the view point of those parties. The response rate was 80% which represents 48 out of 60 questionnaires. The study has found that the Jordanian Banks comply with the OECD Principles of Corporate Governance, the average score of Audit Committee shows that the Jordanian Banks earned a perfect 5.00 score for both the Role of Stakeholders in Corporate Governance and Disclosure and Transparency categories, while the lowest score was in the Rights of Shareholders category of (3.33). The Average score by Category of Control and Governance Department in the Central Bank of Jordan has shown that the banking sector of Jordan is moderately saving the rights of shareholders and so the Responsibility of the Board (the average is 2.5 and 3.00) respectively, the analysis of JSC score has shown an approximate results that obtained from the Central Bank of Jordan departments. This identification can be interpreted as showing that the Central Bank of Jordan and JSC responses are mature and objective, and they are applying the same tools and pillars to control and oversight the banking sector of Jordan. In conclusion, the overall average scores of all tested parties are supporting that the banking sector of Jordan is

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complying with the (OECD) Principles of Corporate Governance. The results of the study recommend continued enforcement of the rights of stockholders in particular and the responsibility of the Board. More emphasis should be placed on the rights of stockholders and related party transactions. We recommend a high level strategic review of the different functions of the Central Bank of Jordan and the JSC, so that functional responsibilities can be better aligned concerning the Rights of stockholders and Board Responsibilities. These results could be utilized to conduct further analysis regarding the attributes of those tested Audit Committees, the proposed impact of ownership structure on compliance with CG, and Equitable Treatment of Shareholders.

banks of Jordan, audit committee, corporate governance, OECD

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INTRODUCTION

Good corporate governance helps to increase share price and makes it easier to obtain capital. International investors are hesitant to lend money or buy shares in a corporation that does not subscribe to good corporate governance principles. Transparency, independent directors and a separate audit committee are especially important. Some international investors will not seriously consider investing in a company that does not have these things. Several organizations have popped up in recent years to help adopt and implement good corporate governance principles such as the Organization for Economic Cooperation and Development, the World Bank, the International Finance Corporation, the U.S. Commerce and State.

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

Applying these rules and principles has become a slogan for public and private sectors, a tool for enhancing confidence in any national economy and an evidence of the existence of fair and transparent polices for protecting investors and traders alike. It is also an indication to the level of professional commitments reached by the companies' managements towards good governance, transparency and accountability, the existence of measures to limit corruption, and consequently raise the economy’s attractiveness to local and foreign investments and bolstering its competitiveness.

The guide of corporate governance in Jordan was prepared in view of the development of the national economy at all levels, and in line with the JSC's efforts to develop the national capital market and its regulatory and organizational framework. It contains rules of corporate governance for shareholding companies listed at Amman Stock Exchange (ASE) for the purpose of establishing a clear framework that regulates their relations and management and defines their rights, duties and responsibilities in order to realize their objectives and safeguard the rights of all stakeholders.

These rules are based principally on a number of legislations, mainly the Securities Law and related regulations, the Companies Law, and the international principles established by the Organization of Economic Cooperation and Development (OECD). McGee (2010) has conducted a study regarding Jordanian Banks depending on the corporate governance topics which discussed in the World Bank's ROSC report that classified a questionnaire into categories based on the extent of compliance with the OECD's Principles of Corporate Governance, OECD (2004).

Based on this, Sixty postal questionnaires have been distributed randomly to the Audit Committee Members in Jordanian Banks, Control and Governance Department in the Central Bank of Jordan and in the JSC, to explore the extent of compliance with the OECD's Principles of Corporate Governance, which include Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders in Corporate Governance, Disclosure and Transparency, the responsibility of the Board. The banking sector in Jordan plays the primary role in sustaining the national economy, through revision of the principles of corporate governance legislation, the (OECD) principles, as well as instructions of the Central Bank of Jordan and its role in insuring the commitment of banks in the application of these instructions, Al-Sa'eed (2012). Rezaee *et al*. (2003) stated that good corporate governance promotes relationships of accountability among the primary corporate participants and this may enhance corporate performance as it holds management accountable to the board and the board accountable to the shareholders.

One of the best-known definitions of corporate governance is to be found in the Report of the Committee on the Financial Aspects of Corporate Governance: Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. CMA (2002) defined corporate governance as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accountability with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders.

A number of commissions and committees have been established to address corporate governance in the USA, which includes the Treadway Commission (1987) and the Blue Ribbon Committee (1999). Further, the Sarbanes-Oxley act of

2002 was signed into law and one of its major provisions was that listed companies establish audit committees (Joshi & Wakil, 2004). Firms with stronger monitoring by boards and shareholders may have taken more risk before the crisis, because managers that have accumulated firm-specific human capital and enjoy private benefits of control, tend to seek a lower level of risk than shareholders that do not have those skills and privileges (Laeven & Levine, 2008).

The economics and functions of banks differ from those of industrial firms, because of these differences; banks are subject to stringent prudential regulation of their capital and risk. Moreover, these differences are reflected in corporate governance practices observed in the banking sector and in theoretical works on the "good corporate governance of banks". The increasing volume of research on corporate governance is also due to the global financial crisis, which was partly blamed on corporate governance issues and led to urgent analysis to help guide corporate governance reforms. Theoretical works suggest that good corporate governance of Jordanian banks requires a somewhat different framework from that for other firms.

The organization of the paper is as follows: the following section defines the problem of the study, the third section contains prior work worldwide on the issue and hypotheses development, the fourth section presents the methodology and data gathering, and the fifth section contains results and the conclusion of the study.

1. PROBLEM DEFINITION

The OECD Principles of Corporate Governance, referred to in the EU Commission's Action Plan on Company Law and Corporate Governance, take a slightly broad view: "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders, and should facilitate effective monitoring (OECD, 2004). The OECD Steering Group on Corporate Governance, based on the premise that corporate governance problems of banks are not fundamentally different from those of generic corporations, finding, in particular, that there is no immediate call for a revision of the OECD Principles, but a need for a more effective implementation of standards already greed (OECD, 2009).

The guide of corporate governance in Jordan was prepared in view of the development of the national economy at all levels, and in line with the JSC's efforts to develop the national capital market and its regulatory and organizational framework. It contains rules of corporate governance for shareholding companies listed at ASE for the purpose of establishing a clear framework that regulates their relations and management and defines their rights, duties and responsibilities in order to realize their objectives and safeguard the rights of all stakeholders.

These rules are based principally on a number of legislations, mainly the Securities Law and related regulations, the Companies Law, and the international principles established by the Organization of Economic Cooperation and Development (OECD). McGee's (2010) study focuses on the main corporate governance attributes of Jordan, and did not mention the structure of data gathered; while our study is aiming to what extent Jordanian Banks do comply with principles of Corporate Governance? In addition to that; this study is based on clearer source of data, so we cannot generalize his results on Jordan. In addition to that; this study is differs from the study of (McGee, 2010) by the nature of tested groups, McGee (2010) has observed the compliance with CG in Banking Sector of Jordan in general without exploring the nature of attitudes and detailed responses toward CG from different perspectives, in his study; he did not mention how responses were obtained, and from whom.

In this study three different groups have been tested to get more objective results and findings. By obtaining the above mentioned results, a sound base could be provided about the validity and objectivity of observed results, and so could be generalized.

Prior accounting research and the accounting profession have focused primarily on the board of directors and the audit committee. More precisely, data for this study was taken from three researched perspectives; that are: Audit Committee Members of Jordanian Banks, Central Bank of Jordan and JSC, upon which we have the opportunity to generalize the study results. These three areas cover almost all Jordanian Enterprises, so the study is going to answer the following major question:

RQ: Do Jordanian Banks comply with Principles of Corporate Governance from different perspectives?

Those principles are: Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders in Corporate Governance, Disclosure and Transparency, and the responsibility of the Board.

2. LITERATURE REVIEW

This study has classified the previous related literatures into two categories; the first one is those related to the Jordanian environment, and the second one is related to other countries.

2.1. Literature review on Jordan

There were many previous researches exploring the implementing of corporate governance in Jordan. Al- Haddad *et al*. (2011) in a study applied in Jordan, aimed to provide evidence of corporate governance & performance indicators of the Jordanian industrial companies listed at ASE , has found that there is a direct positive relationship between profitability, measured either by Earnings per share (EPS) or Return on assets (ROA), and corporate governance, also a positive direct relationship between corporate performance, liquidity, dividend per share, and the size of the company with corporate governance.

In his study, Bawaneh (2011) seeks to understand how Jordan banking sector is affected by the Corporate Governance (CG) requirements released by Basel Committee on Banking Supervision (BCBS) and Organization for Economic Cooperation and Development (OECD). As a result, banks in Jordan comply with CG requirements by acting in accordance with a request from the CBJ based on BCBS and OECD guidelines and requirements which enhance the CG procedures. Therefore, CG continues to gain attention and importance from parties concerned in Jordan, but many steps need to be done in the future.

Al-Sa'eed (2012) has tested the relationship between the independent variables: Commitment to Corporate Governance, Functions of the Board of Directors, Board Committees, Control Environment, and Transparency and Disclosure codes, and the dependent variable: Reduction of the global financial crisis implications. It was found that independent variables are significantly able to explain the variance in reduction of the global financial crisis implications, and that Corporate Governance's Principles have reduced the implications of the global crises on the Jordanian Banking Sector. Al-Sa'eed (2011) has found that the compliance with JSC requirements on audit committee has been evaluated as the most effective feature that influences the financial reporting in the Jordanian share-traded companies, audit quality, and internal control effectiveness. Understandings of AC’s functions are coming next respectively.

Bawaneh (2011) supported that banking sector of Jordan is complied with the (OECD) Principles of Corporate Governance. In addition to that, Abu Risheh and Al-Sa'eed (2012) found in their study that the banking sector of Jordan is complying with corporate governance and disclosure, and this is improving the quality of financial reporting.

2.2. Literature reviews on other countries

Prior accounting research and the accounting profession have focused primarily on the board of directors and the audit committee. For instance, the Public Oversight Board (1993) defined corporate governance as “those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting process." However, a narrow view of corporate governance restricting it to only monitoring activities may potentially undervalue the role that corporate governance can play.

Buck (2003) discusses corporate governance in Russia from a historical perspective and the hostile attitude that is taken toward Western and outside investors. Johnson *et al*. (2000) presented evidence that the weakness of legal institutions for corporate governance had an important elect on the extent of depreciations and stock market declines in the Asian crisis. In addition to that, Rezaee, *et al*. (2003) stated that good corporate governance promotes relationships of accountability among the primary corporate participants and this may enhance corporate performance as it holds management accountable to the board and the board accountable to the shareholders.

On the other hand, Filatotchev *et al*. (2003) suggested that excessive management control and ignorance of the governance process is causing problems that could be reduced by increasing the influence of outside directors. Several studies have been done on various aspects or components of corporate governance. In the area of timeliness of financial reporting, for example, the Accounting Principles Board (1970) recognized the general principle several decades ago.

The Financial Accounting Standards Board (1980) recognized the importance of timeliness in one of its Concepts Statements. A code of best practice was published in December 1992 (The Cadbury Code) which included recommendations for companies to establish audit committees comprising independent non-executive directors (Power, 2002). In the USA an increasing number of earnings restatements by publicly traded companies, coupled with allegations of financial statement fraud and lack of responsible corporate governance of high profile companies (e.g. Enron, Global Crossing, World com in the USA, Parmalat in Italy and MacMed, Master bond and Leisurenet in South Africa) has sharpened the ever increasing attention on corporate governance in general and audit committees in particular.

The fall of these companies raised concerns regarding the lack of vigilant oversight by their boards of directors and audit committees in the financial reporting process and auditing functions (Rezaee *et al*., 2003). Gospel and Pendleton (2005) suggested that corporate governance essentially deals with the relationship between capital, management and labor, and that corporate governance is concerned with who controls the firm, in whose interest the firm is governed and the various ways whereby control is exercised. Kay and Silberston (1997) suggested a trusteeship model of corporate governance that emphasizes the evolutionary development of the corporation around its core skills and activities.

Corporate governance is about finance, about the relationship between employees, shareholders and management and about the evolutionary development of the core skills and activities of the corporation. The informal relations of trusts and importance of reputations are, however, also connected to the viability of dispersed ownership hence also explaining some of the differences in ownership structure across countries (Franks *et al*., 2009). Furthermore, the level of legal protection of shareholders has an impact on how well management ownership aligns the interests of management and shareholders.

Berlin *et al*. (1991) and Wen and Shao (2012) examined the explanatory power of corporate governance mechanisms on the wealth effect of firms' new product strategies, they have shown that board size, board independence, audit committee independence, CEO equity-based pay, analyst following and shareholder rights are all of significance in explaining the variations in the wealth effect of new product introductions. The results reveal that the new product strategies announced by firms with better corporate governance mechanisms tend to receive higher stock market valuations than those of firms with poorer governance mechanisms.

Leung and Horwitz (2009) shown that Hong Kong firms with a more concentrated management (executive board) ownership displayed better capital market performance during the 13-month period of the Crisis. They also found that firms with more equity ownership by non-executive directors, in which the positions of CEO and board chairperson were occupied by the same individual, experienced a smaller stock price decline. Jen *et al*. (2009) aimed to study the relationship between European convertible bond issues and corporate governance, the study has found that the larger the company's ECB issue size, the higher the premium at the time of the ECB issue, and the higher the company debt ratio, the lower the ECB issue premium. Finally, study found that the larger the company market value, the larger the size of the ECB issue.

Lawrence and Marcus (2009) found that the governance provisions recently mandated by the U.S. stock exchanges are less closely linked to firm operating performance than are those not so mandated.

In their findings, Kin and Baruch (2008) added to the compensation literature a potentially important dimension: managerial pay dispersion - effective corporate governance, especially high board independence, strengthens the positive association between firm performance and pay dispersion. John and Afshad (2008) examined the relation between corporate governance attributes and perceived information asymmetry, and found that board independence, size of the audit committee, and officer and director ownership mitigate the negative effect of the equity offering announcement on share prices.

Furthermore, Hsin-Hung (2008) confirmed that the accuracy of the logistic regression model for predicting corporate financial distress can be improved by incorporating the corporate governance measure. Moreover, the improvements of the correct rate for classification by incorporating the corporate governance measure increased as the prediction horizon were raised. Kimberly *et al*. (2011) investigated the relation between corporate governance and returns to bidders and targets, they found that the cumulative abnormal returns for acquirers are significantly negative upon announcement of acquisitions for the full sample and for the related and diversifying sub-samples, however, diversifying acquisitions, when conducted by firms with a higher percentage of outsiders on the board, improve returns. Furthermore, they found that corporate governance plays an important role in determining wealth creation for our sample of acquiring firms.

In addition, Mahmud *et al*. (2010) examined the effect of firm-level governance on the firm's choice of an external auditor. They test how the relation between corporate governance and auditor choice may be affected by the strength of legal environment. The results show that firm-level governance scores are positively related to the firm's auditor choice. This association is strengthened by country-level legal protection, specifically, the positive association between auditor choice and the firm-level governance scores is weaker (stronger) in a low (high) legal environment. These findings are robust after controlling for determinants that were found to be significant in earlier research.

Overall, results suggest that the benefits arising from the employment of high-quality auditors are likely to be greater when legal environment is stronger because both auditors and firms are subject to more severe legal punishments for opportunistic behavior.

2.3. Relationship between corporate governance and banking regulations

The World Bank has published more than 40 studies on corporate governance in various countries that use the OECD principles as a template. OECD (2004) principles ensure the Basis for an Effective Corporate Governance Framework. The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

The OECD Principles of CG are subdivided into the following categories:

1. The Rights of Shareholders and Key Ownership Functions. “The corporate governance framework should protect and facilitate the exercise of shareholders’ rights.”
2. The Equitable Treatment of Shareholders: “The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.”
3. The Role of Stakeholders in Corporate Governance: “The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.”

4. Disclosure and Transparency: “The corporate governance framework should ensure that timely and accurate disclosure is made of all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.“
5. The Responsibilities of the Board: “The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders.”

The impact of banking regulation/supervision on equity governance is very different since the interests of shareholders and supervisors are not fully aligned. Both shareholders and the supervisor want banks to have high-quality corporate governance mechanisms, structures and procedures in place.

In particular, both are interested that banks design effective internal control systems and observe effective risk-management practices, that banks’ boards are staffed with members who boast pertinent experience and sufficient time for board-work, and that banks’ boards function effectively, e.g., by setting up an appropriate committee structure.

However, one fundamental difference remains: the supervisor is interested in the long-term existence of the bank whereas shareholders are interested in high stock returns, and with well-diversified shareholders, the divergence is even more pronounced.

As a consequence, with respect to corporate governance standards for substantive issues, i.e., a bank’s objective and the criteria for decisions taken by senior management or the board, a supervisor will favor rather different standards.

Prudential regulation, e.g., arbitrary limits on leverage and requirements for liquidity, is a case in point; In addition, a supervisor’s notion of good corporate governance will be different with respect to corporate governance mechanisms that have an indirect bearing on the substantive standards for decision-making by the board or top management.

2.4. Hypotheses development

The guide of corporate governance in Jordan was prepared in view of the development of the national economy at all levels, and in line with the JSC’s efforts to develop the national capital market and its regulatory and organizational framework.

It contains rules of corporate governance for shareholding companies listed at ASE for the purpose of establishing a clear framework that regulates their relations and management and defines their rights, duties and responsibilities in order to realize their objectives and safeguard the rights of all stakeholders.

These rules are based principally on a number of legislations, mainly the Securities Law and related regulations, the Companies Law, and the international principles established by the Organization of Economic Cooperation and Development (OECD).

McGee (2010) focused on the main corporate governance attributes of Jordan, and did not mention the structure of data gathered; while our study is aiming to what extent Jordanian Banks do comply with principles of Corporate Governance? In addition to that; this study is based on clearer source of data, so we cannot generalize his results on Jordan.

Prior accounting research and the accounting profession have focused primarily on the board of directors and the audit committee. More precisely; data for this study was taken from three researched perspectives; that are: Audit Committee Members of Jordanian Banks, Central Bank of Jordan and JSC, upon which we have the opportunity to generalize the study results.

Based on the study question we can formulate the following hypotheses:

H 1: Jordanian Banks do not comply with Principles of Corporate Governance from the viewpoint of Audit Committee members of Jordanian Banks.

H 2: Jordanian Banks do not comply with Principles of Corporate Governance from the viewpoint of Central Bank of Jordan.

H 3: Jordanian Banks do not comply with Principles of Corporate Governance from the viewpoint of JSC.

3. METHODOLOGY AND DATA GATHERING

Sixty postal questionnaires have been distributed randomly to the Audit Committee Members in Jordanian Banks, Control and Governance Department in the Central Bank of Jordan and in the JSC, to explore the extent of compliance with the OECD's Principles of Corporate Governance from the view of point of those parties.

By doing so we are mitigating the effect of any clustered bias in the expected results. By applying the frequencies for all responses we observed and quantified their responses – as appeared in table 1 by giving five points for full compliance with CG Principles, and giving one point for no compliance with CG Principles as follows in table 1.

Table 2 presents the number of distributed questionnaires to the tested groups; 28 questionnaires were distributed to the Audit Committee Members in Jordanian Banks, The researcher has retrieved only 22 questionnaires, with the percentage of 78.5%, while 16 questionnaires were distributed to the control and governance department in the central bank of Jordan with a response rate of 87.5%.

Table 1. **Scores of responses**

Type of response	Given Score
Fully Complied = HC	5 points
Materially Complied = RC	4 points
Partially Complied = PC	3 points
Materially Not Complied = MNC	2 points
No Compliance = NC	1 point

Finally, 16 questionnaires were distributed to the JSC with a response rate of 75%. The response rate of the tested groups was high with an average of 80% which a good indicator about the validity of results.

Table 2. **Distribution of questionnaire and response rate for each category**

Type of response	Distributed questionnaires	Retrieved questionnaires	Average Response rate
Audit Committee Members in Jordanian Banks	28	22	78.5%
Control and Governance Department in the Central Bank of Jordan	16	14	87.5%
JSC	16	12	75%
Total distributed questionnaires	**60**	**48**	**80%**

4. SUMMARY OF FINDINGS

In this section we summarize the average responses in the various categories. The following tables categorize the degree of compliance with corporate governance principles from the viewpoint of the tested parties.

We have calculated and summarized the average responses that gathered from the study sample. Table 3 shows the analysis of responses of the AC Members. In Table 4 we have quantified the responses according to the above scale, summiting the responses and then divided them by number of items.

Table 5 shows the analysis of responses of the Control and Governance Department in the Central Bank of Jordan. In Table 6 we have quantified the responses according to the above scale, summiting the responses and then divided them by number of items.

Table 7 shows the analysis of responses of the Control and Governance Department in the Jordanian Securities Commission. In Table 8 we have quantified the responses according to the above scale, summiting the responses and then divided them by number of items.

At the end of analysis, in Table 9 we figure out the overall average of the responses in order to generalize the results, and make sure that there are no significant differences between tested groups.

Table 3. **Overall Summary of Average Responses by Category of Audit Committee Members of Jordanian Banks**

	CG PRINCIPLES	HC	RC	PC	MNC	NC
1	**Rights of Shareholders**					
	Do banks Protect shareholder rights?		x			
	Do Shareholders have the right to participate in, and to be sufficiently informed on decisions concerning fundamental corporate changes?			X		
	Do Shareholders have the opportunity to participate effectively and vote in general shareholder meetings?			X		
	Do Capital structures and arrangements allow Disproportionate control?			X		
	Do Markets for corporate control allowed to function in an efficient and transparent manner?			x		
	Do Shareholders consider the costs and benefits of exercising their voting rights?		x			
2	**Equitable Treatment of Shareholders**					
	Does The corporate governance framework ensure the equitable treatment of all shareholders, including minority and foreign shareholders?		X			
	Does Insider trading and abusive self-dealing prohibited?		x			
	Do Board members and managers required to disclose material interests in transactions or matters affecting the corporation?	x				
3	**Role of Stakeholders in Corporate Governance**					
	Does The corporate governance framework recognize the rights of stakeholders?	X				
	Do Stakeholders have the opportunity to obtain effective redress for violation of their rights?	X				
	Does The corporate governance framework permit performance enhancement mechanisms for stakeholder participation?	X				
	Do Stakeholders have access to relevant information?	x				

	CG PRINCIPLES	HC	RC	PC	MNC	NC
4	**Disclosure and Transparency**					
	Does The corporate governance framework ensure that timely and accurate disclosure is made on all material matters?	X				
	Do Information prepared, audited and disclosed in accordance with high quality standards of accounting, financial and no financial disclosure and audit?	X				
	Does an independent audit conducted by an independent auditor?	X				
	Do Channels for disseminating information provide for fair, timely and cost effective access to relevant information by users?	x				
5	**The Responsibility of the Board**					
	Do Board members act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and the shareholders?	X				
	Does The board treat all shareholders fairly?	x				
	Does The board ensure compliance with applicable law and take into account the interests of stakeholders?	x				
	Does The board fulfill certain board functions?		X			
	Does The board able to exercise objective judgment on corporate affairs independent from management?		x			
	Do Board members have access to accurate, relevant and timely information?	x				

Table 3 shows the Summary of Average Responses by Category of Audit Committee Members of Jordanian Banks. The observed average scores were above 3 degrees, the third principle which is the Role of Stakeholders in Corporate Governance and the fourth one which is Disclosure and Transparency principles were highly observed by the respondents, and so obtained a score of 5, which means that the Jordanian Banks are highly value and well appreciate this issue, while the least obtained scores were belong to the first principle which is the rights of shareholders, this result could be interpreted and referred to the ownership structure of Jordanian Banks, according to the ASE Bulletins, the majority ownership of the Jordanian Banks is referred to and demonstrated by Families and relatives, so that; there is no adequate pressure and no tendency toward considering the rights of shareholders. Table 4 supports the above analysis; it presents the overall average of achieved scores.

Table 4. **Weighted Average of Achieved Scores by the Category of Audit Committee Members of Jordanian Banks**

Category	Total Points	Number of Items	Average scores	Test of H ° 1
Rights of Shareholders	22	6	3.33	
Equitable Treatment of Shareholders	13	3	4.33	
Role of Stakeholders in Corporate Governance	20	4	5.00	
Disclosure and Transparency	20	4	5.00	
The Responsibility of the Board	28	6	4.67	
Overall Average	**101**	**23**	**4.40**	**Rejected**

Table 5. **Summary of Average Responses by Category of Control and Governance Department in the Central Bank of Jordan**

		HC	RC	PC	MNC	NC
1	**Rights of Shareholders**					
	Do banks Protect shareholder rights?				X	
	Do Shareholders have the right to participate in, and to be sufficiently informed on decisions concerning fundamental corporate changes?			X		
	Do Shareholders have the opportunity to participate effectively and vote in general shareholder meetings?				X	
	Do Capital structures and arrangements allow Disproportionate control?				X	
	Do Markets for corporate control allowed to function in an efficient and transparent manner?			X		
	Do Shareholders consider the costs and benefits of exercising their voting rights?			X		
2	**Equitable Treatment of Shareholders**					
	Does The corporate governance framework ensure the equitable treatment of all shareholders, including minority and foreign shareholders?		X			
	Does Insider trading and abusive self-dealing prohibited?		X			
	Do Board members and managers required to disclose material interests in transactions or matters affecting the corporation?		X			
3	**Role of Stakeholders in Corporate Governance**					
	Does The corporate governance framework recognize the rights of stakeholders?		X			

		HC	RC	PC	MNC	NC
	Do Stakeholders have the opportunity to obtain effective redress for violation of their rights?		X			
	Does The corporate governance framework permit performance enhancement mechanisms for stakeholder participation?		X			
	Do Stakeholders have access to relevant information?		X			
4	**Disclosure and Transparency**					
	Does The corporate governance framework ensure that timely and accurate disclosure is made on all material matters?		X			
	Do Information prepared, audited and disclosed in accordance with high quality standards of accounting, financial and no financial disclosure and audit?		X			
	Does an independent audit conducted by an independent auditor?	X				
	Do Channels for disseminating information provide for fair, timely and cost effective access to relevant information by users?			X		
5	**The Responsibility of the Board**					
	Do Board members act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and the shareholders?			X		
	Does The board treat all shareholders fairly?			X		
	Does The board ensure compliance with applicable law and take into account the interests of stakeholders?			X		
	Does The board fulfill certain board functions?			X		
	Does The board able to exercise objective judgment on corporate affairs independent from management?			X		
	Do Board members have access to accurate, relevant and timely information?			X		

Table 5 shows the Summary of Average Responses by Category of Control and Governance Department in the Central Bank of Jordan. The observed average scores were above 3 degrees, the second principle which is the equitable treatment of shareholders, the third principle which is the Role of Stakeholders in Corporate Governance and the fourth one which is Disclosure and Transparency principles were highly observed by the respondents, and so obtained a score of (4), which means that the Jordanian Banks are highly value and well appreciate these categories, while the least obtained scores were belong to the first principle which is the rights of shareholders, this result could be interpreted and referred to the ownership structure of Jordanian Banks, according to the ASE Bulletins, the majority ownership of the Jordanian Banks is referred to and demonstrated by Families and relatives, so that; there is no adequate pressure and no tendency toward considering the rights of shareholders.

In addition to that, this result could be rationalized through the Central Banks Regulations that concentrate on full disclosure, transparency, and corporate governance. Finally, this result is in line with results obtained from Audit Committee Perception.

These similar results provide a sound base about the homogeneity of attitudes of tested groups. Table 6 supports the above analysis; it presents the overall average of achieved scores.

Table 6. **Weighted Average of Achieved Scores by the Category of Control and Governance Department in the Central Bank of Jordan**

Category	Total Points	Number of Items	Average scores	Result of H °2
Rights of Shareholders	15	6	2.50	
Equitable Treatment of Shareholders	12	3	4.00	
Role of Stakeholders in Corporate Governance	16	4	4.00	
Disclosure and Transparency	16	4	4.00	
The Responsibility of the Board	18	6	3.00	
Overall Average	**77**	**23**	**3.50**	**Rejected**

Table 7. **Overall Summary of Average Responses by Category of Control and Governance Department in the Jordanian Securities Commission**

		HC	RC	PC	MNC	NC
1	**Rights of Shareholders**					
	Do banks Protect shareholder rights?			X		
	Do Shareholders have the right to participate in, and to be sufficiently informed on decisions concerning fundamental corporate changes?			X		
	Do Shareholders have the opportunity to participate effectively and vote in general shareholder meetings?				X	
	Do Capital structures and arrangements allow Disproportionate control?				X	
	Do Markets for corporate control allowed to function in an efficient and transparent manner?			X		

		HC	RC	PC	MNC	NC
	Do Shareholders consider the costs and benefits of exercising their voting rights?			X		
2	**Equitable Treatment of Shareholders**					
	Does The corporate governance framework ensure the equitable treatment of all shareholders, including minority and foreign shareholders?		X			
	Does Insider trading and abusive self-dealing prohibited?		X			
	Do Board members and managers required to disclose material interests in transactions or matters affecting the corporation?		X			
3	**Role of Stakeholders in Corporate Governance**					
	Does The corporate governance framework recognize the rights of stakeholders?		X			
	Do Stakeholders have the opportunity to obtain effective redress for violation of their rights?			X		
	Does The corporate governance framework permit performance enhancement mechanisms for stakeholder participation?		X			
	Do Stakeholders have access to relevant information?			X		
4	**Disclosure and Transparency**					
	Does The corporate governance framework ensure that timely and accurate disclosure is made on all material matters?		X			
	Do Information prepared, audited and disclosed in accordance with high quality standards of accounting, financial and no financial disclosure and audit?		X			
	Does an independent audit conducted by an independent auditor?	X				
	Do Channels for disseminating information provide for fair, timely and cost effective access to relevant information by users?			X		
5	**The Responsibility of the Board**					
	Do Board members act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and the shareholders?			X		
	Does The board treat all shareholders fairly?			X		
	Does The board ensure compliance with applicable law and take into account the interests of stakeholders?			X		
	Does The board fulfill certain board functions?			X		

		HC	RC	PC	MNC	NC
	Does The board able to exercise objective judgment on corporate affairs independent from management?			X		
	Do Board members have access to accurate, relevant and timely information?			X		

Table 7 shows Overall Summary of Average Responses by Category of Control and Governance Department in the Jordanian Securities Commission.

The observed average scores were above 3 degrees, the second principle which is the equitable treatment of shareholders and the fourth one which is Disclosure and Transparency principles were highly observed by the respondents, and so obtained a score of 4, which means that the Jordanian Securities Commission is highly value and well appreciate these categories, while the least obtained scores were belong to the first principle which is the rights of shareholders, this result also could be interpreted and referred to the ownership structure of Jordanian Banks, according to the ASE Bulletins, the majority ownership of the Jordanian Banks is referred to and demonstrated by Families and relatives, so that there is no adequate pressure and no tendency toward considering the rights of shareholders.

In addition to that; this result could be rationalized through the Jordanian Securities Commission's Regulations that concentrating on full disclosure, transparency, and corporate governance. Regulations of both; the Central Bank of Jordan and the Jordanian Securities Commission are fully supporting the value Disclosure, Transparency, and Corporate Governance.

As mentioned in tables 5 and 6, this result is in line with results obtained from Audit Committee and Central Bank Perceptions.

These identical results provide a sound base about the homogeneity of attitudes of tested groups. Table 8 supports the above analysis; it presents the overall average of achieved scores.

Table 8. **Weighted Average of Achieved Scores by the Category of Control and Governance Department in the Jordanian Securities Commission**

Category	**Total Points**	**Number of Items**	**Average score**	**Result of** H °3
Rights of Shareholders	16	6	2.67	
Equitable Treatment of Shareholders	12	3	4.00	
Role of Stakeholders in Corporate Governance	14	4	3.50	
Disclosure and Transparency	16	4	4.00	
The Responsibility of the Board	18	6	3.00	
Overall Average	**76**	**23**	**3.43**	**Rejected**

Table 9. **Overall weighted average of all responses of the study sample**

Category	Total Points	Number of Items	Average
Rights of Shareholders	51	18	2.83
Equitable Treatment of Shareholders	37	9	4.11
Role of Stakeholders in Corporate Governance	50	12	4.16
Disclosure and Transparency	52	12	4.33
The Responsibility of the Board	64	18	3.55
Overall Average	**254**	**69**	**3.68**

To explore the extent of compliance with the OECD's Principles of Corporate Governance, relative scores of analysis of the Average Responses of Audit Committee Members show that Banking Sector of Jordan earned a perfect 5.00 score for both in the Role of Stakeholders in Corporate Governance and Disclosure and Transparency categories, while the lowest score was in the Rights of Shareholders category of 3.33.

This result is lined with prior literature (Al-Sa'eed, 2012) and the report of OECD (ROSC, 2004). Furthermore, our results are also lined with the general findings of McGee (2010) in the light of this findings; this result has been precisely determined the perspective by the Audit Committee Members of Jordanian Banks, while McGee's did not. In addition to that, our study found that banking sector of Jordan is fully complying with Disclosure and Transparency category requirements.

It was decided that the application of these rules would initially be through "compliance or explain" approach, which means that companies must comply with the rules of the guide, and in case of non-compliance with any of these rules, other than those based on a legal provision that is binding under responsibility, it would be necessary to explain clearly the reason for non-compliance in the company's annual report.

This approach is intended to give companies flexibility in implementing the corporate governance rules and sufficient time to adapt to them, in order to enhance awareness of these rules and to achieve full compliance gradually (JSC, 2011).

The average responses by category of control and governance department in the Central Bank of Jordan show that banking sector of Jordan is moderately saving the rights of shareholders and so the responsibility of the board (the average is 2.5 and 3.00 respectively). This result can be normatively explained that most of Jordanian banks are owned and controlled by families who are controlling the majority ownership of outstanding shares, they used to make the economic decisions that serve their interests, on the other hand, the results show that banking sector of Jordan is complying with corporate governance and disclosure requirements (the average is 4.00 and 4.00, respectively). This result is lined with Abu Risheh & Al-Sa'eed (2012).

The analysis of JSC responses shows approximately the same results that obtained from the Central Bank of Jordan Departments, this identification can be interpreted that the Central Bank of Jordan and JSC responses are mature and objective, and they are applying the same tools and pillars to control and oversight the banking sector of Jordan. Regulations of both the Central Bank of Jordan and the JSC are fully supporting the value Disclosure, Transparency, and Corporate Governance.

At the end, the overall average scores of all tested parties are supporting that banking sector of Jordan is complying with the OECD Principles of Corporate Governance. Bank's management will prefer the firm to take on substantially less risk than diversified stockholders, which explain the low score of the Rights of Stockholders and Board responsibility. Results of Al- Haddad *et al*. (2011) and Bawaneh (2011) support our results.

Johnand and Afshad (2008) examined the relation between corporate governance attributes and perceived information asymmetry, they found that board independence, size of the audit committee, and officer and director ownership mitigate the negative effect of the equity offering announcement on share prices.

This study is differs from the study of McGee (2010) by the nature of tested groups. McGee (2010) has observed the compliance with CG in Banking Sector of Jordan in general without exploring the nature of attitudes and detailed responses toward CG from different perspectives, in his study; he did not mention how responses were obtained, and from whom.

In this study three different groups have been tested to get more objective results and findings. By obtaining the above mentioned results; a sound base could be provided about the validity and objectivity of observed results, and so could be generalized. In the researcher opinion; these results could be utilized to conduct further analysis regarding the attributes of those tested Audit Committees, the proposed impact of ownership structure on compliance with CG, and Equitable Treatment of Shareholders.

RESULTS AND CONCLUSION

Enforcement of the corporate governance rules continues to be a challenge. As observed from Table 10, the results of the study rejected all the null hypotheses, and supported the alternative ones, which means that (1) Jordanian Banks comply with Principles of Corporate Governance from the viewpoint of Audit Committee members of Jordanian Banks; that (2) Jordanian Banks comply with Principles of Corporate Governance from the viewpoint of Central Bank of Jordan; and that (3) Jordanian Banks do not comply with Principles of Corporate Governance from the viewpoint of JSC.

The majority ownership of the Jordanian Banks is referred to and demonstrated by Families and relatives, so that there is no adequate pressure and no tendency toward considering the rights of shareholders. In addition to that, this result could be rationalized through the Jordanian Securities Commission's Regulations that concentrating on full disclosure, transparency, and corporate governance.

Based on such analysis the results recommend continued enforcement of the rights of stockholders in particular and so the responsibility of the board. More emphasis should be placed on the rights of stockholders and related party transactions. Results also recommend a high level strategic review of the different functions of the Central Bank of Jordan and JSC, so that functional responsibilities can be better aligned concerning the Rights of stockholders and Board Responsibilities, doing so would reduce regulatory duplication and would reduce the regulatory burden on businesses.

Regulations of both the Central Bank of Jordan and the Jordanian Securities Commission are fully supporting the value Disclosure, Transparency, and Corporate Governance.

Table 10. **Summary of the results of tested hypotheses**

Hypothesis	**Average score**	**Result of tested Hypothesis**
H°1: Jordanian Banks do not comply with Principles of Corporate Governance from the viewpoint of Audit Committee members of Jordanian Banks.	4.4	Rejected
H°2: Jordanian Banks do not comply with Principles of Corporate Governance from the viewpoint of Central Bank of Jordan.	3.5	Rejected
H°3: Jordanian Banks do not comply with Principles of Corporate Governance from the viewpoint of JSC.	3.43	Rejected
Overall Average		

Bank's management will prefer the firm to take on substantially less risk than diversified stockholders, which explain the low score of the Rights of Stockholders and Board responsibility.

Banking regulators' and supervisors' interest in maintaining financial stability parallels the interest of stockholders and, hence, the monitoring and controlling activities of supervisors act as a substitute for poor stockholders monitoring and control. It follows that, with respect to banks' corporate governance, their activities will affect stockholders.

Stockholders will benefit from improvements in corporate governance mechanisms, structures and procedural standards, i.e., from rules designed to improve internal control systems and risk-management practices, as well as the expertise of board members and the board structure.

This study shows the influence the business systems have on the practices of corporate governance in which disclosure and transparency is considered one of the determinants of the success of corporate governance modes. These results are lined and supported by Johnson *et al*. (2000) who provide that the weakness of legal institutions for corporate governance had an important elect on the extent of depreciations and stock market declines in the Asian crisis. Al-Sa'eed (2012) has found that the commitment to the Principles of Corporate Governance has significant effect on reducing the implications of global crises on the Jordanian Banking Sector.

Rezaee *et al*. (2003) has stated that good corporate governance promotes relationships of accountability among the primary corporate participants and this may enhance corporate performance as it holds management accountable to the board and the board accountable to the shareholders.

Several studies have been done on various aspects or components of corporate governance. Institutional transparency is closely related to the information that is disclosed to a firm’s stakeholders who are, in turn, affected by the structure of corporate ownership. Information disclosure, thus transparency, is affected by the institutional arrangements typical for a certain type of business system, among which is the effectiveness of legal institutions that set boundaries between mandatory and voluntary information disclosure.

Furthermore we recommend that banks should pay more attention to safeguard the shareholders rights, maintain their board responsibilities, disclose the process for evaluating the performance of the board, its committees and individual directors, establish a code of conduct and disclose the code or a summary of the code as to practices that necessary to maintain confidence in the bank's integrity and to take into account their legal obligations and the reasonable expectations of their Stakeholders.

These results could be utilized to conduct further analysis regarding the attributes of those tested Audit Committees, the proposed impact of ownership structure on compliance with CG, and Equitable Treatment of Shareholders.

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