



THE EXTENT OF JORDANIAN BANKS' COMMITMENT IN APPLYING THE PRINCIPLES OF CORPORATE GOVERNANCE

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ABSTRACT

This study aimed to reveal the extent of Jordanian banks' commitment to apply the principles of corporate governance. And to achieve this objective, a questionnaire was designed and distributed to a sample consisted of 120 respondents of the general managers' assistants, managers of the administrations, managers of the branches, the assistants of the managers of the branches and the employees of the audit departments in the Jordanian banks.

After data was analyzed using SPSS, the study concluded that the Jordanian banks are committed to apply the principles of the corporate governance regarding protecting the rights of the stakeholders and the shareholders and treating them fairly. Moreover, the Jordanian banks are committed to issue systems that determine the powers of the Board of Directors and its executive administration and its responsibilities. And the members of the board of directors in the Jordanian banks committed to the rules and the ethics of the professional functional work, to the disclosure and the transparency of the information published and to fulfill their social responsibilities towards the community.

The study recommended the necessity of the control and supervision authorities to encourage all the banks to follow the approach of the banks regarding their commitment to the principles of the corporate governance regarding the social responsibility, and the necessity of establishing a private committee of the governance named the committee of corporate governance that cares of planning, revising and controlling the operations of the governance. Moreover, the necessity to make corrections whenever there is a need.

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1. INTRODUCTION

There has been a great interest in the corporate governance of the organizations in many of the developed economies during the few coming years especially after the economic collapse and the

financial crises that many countries witnessed. One of the most important of these crises is the collapse of many of the organizations in 2002 including Enron Company and Worldcom Company because of the authority transmission from the board of directors to the executive management which caused fraud, accounting mistakes, hidden internal information, misinformation and lack of ethic commitment, in addition to offences which are committed by some of the international audit offices that led the financial community and the judiciary to examine the role of the boards of the directors, the committees of the internal audit and the executive administrations in the organizations.

The system of the corporate governance provides a system to the banks' administration in general and control provisions so as to achieve the objectives of these banks and allow them to have a continuous communication with its sources of funding. The system of corporate governance includes the way in which the bank's affairs are managed through the role of the board of directors and the higher administration in a way that affect identifying the bank's objectives and taking into account the rights of the beneficiary Categories and protecting the rights of the depositors.

The corporate governance also aims to improve the financial performance of the companies, to protect the rights of the Stakeholders in general and the rights of the Stockholders in particular and to achieve the social responsibility of the company using development policies and suitable procedures for the companies' activities to work through to serve the surrounded environment and society (Ontario Teachers Pension Plan, 2003).

Hence, the study was to identify the extent of Jordanian banks' commitment in applying the system of the corporate governance in Jordan through maintaining the stakeholders' and the shareholders' rights and treating them fairly and the commitment of the members of board of directors and the executive managers of the banks to the rules and the ethics of the professional functional work, to the disclosure and the transparency of the information published and to fulfill their social responsibilities towards the community.

2. QUESTIONS OF THE STUDY

The major elements of the problem of the study are represented by the following questions:

- 1) Are the Jordanian banks committed to maintain the rights of the shareholders and treat them fairly?
- 2) Are the Jordanian banks committed to maintain the rights of the stakeholders and treat them fairly?
- 3) Are the Jordanian banks committed to issue systems that identify the authorities of board of directors and the executive administration and its responsibilities?
- 4) Are the members of board of directors and the executive managers in the Jordanian banks committed to the rules and the ethics of the professional functional work?
- 5) Are the Jordanian banks committed to the disclosure and the transparency of the information published?

- 6) Are the Jordanian banks committed to fulfill their social responsibilities towards the community?

3. THE POTENTIAL CONTRIBUTION OF THIS STUDY

This study is characterized as being the first one which paid attention to identify the extent of the Jordanian banks' commitment to the system of the corporate governance for the importance of the concept of the governance and its use in achieving the quality and the distinction in the performance and for the importance of the banking sector in supporting the economic and social development in Jordan. And this study seeks to reach to useful results serve different categories of stakeholders to take their decisions either they were dealers with the banks or the shareholders, or the control departments, or the administrations of the banks or others.

4. THE CORPORATE GOVERNANCE

4.1. The Definition of Corporate Governance

The system of the corporate governance started in 1991 where The *Organization for Economic Cooperation and Development with the cooperation with World bank* issued the principles of the corporate governance including the administration, shareholders, the board of directors' responsibilities and the requirements of disclosure. And the corporate governance is known as the frame that organizes the relations between the administration of the company and the boards of the directors and the shareholders and others as stakeholders. In addition, it helps the company to set its goals and provides the necessary means to achieve these goals and control the performance ([Organization for Economic Co- Operation and Development Publication Services, 1999](#)).

In 2002, the general council of accounting in Canada provided instructions regarding the administrative accounting including procedures that can be adopted by the companies to achieve qualified corporate governance, and these instructions focused on measuring and developing the performance of the board of directors ([Certified Management Accountant \(CMA\), 2002](#)).

And in 2003 , the institute of the internal audits developed special standards of the internal auditing of the companies that suit the new environmental variables regarding the corporate governance and information technology including the principles of the internal auditing , developing the measurement of the internal auditing committee`s performance , developing the principles of the professional functional work that should be available in the auditing committee in the company ([The Institute of Internal Auditor \(IIA\), 2003](#)).

And the system of the corporate governance can be divided as follows:

- a- the internal parties which include the shareholders, board of directors and its committees, the executive administration and the employees.
- b- the external parties which include categories as the depositors, means of media, the analysts and the researchers and other specialized categories in supervision , control and organization (www.ebi.gov.eg).

4.2. The Significance of the Corporate Governance in the Banks

The corporate governance is considered an important system in the banks for the following reasons:

1. The corporate governance is considered a system that guide and control the operational processes of the banks.
2. The good corporate governance represents a vital element in improving the economic efficiency and affects the financial and economic stability.
3. The work of the banks differs from the work of other public companies because of the nature of its work that bear the risks , in addition to the banks' responsibility in maintaining the depositors' money.
4. The existence of the corporate governance system is considered important in the banks because of their exposure to risks resulted from handling its shares in the financial market (Dahmash and Abo, 2003).

4.3. The Principles of the Corporate Governance

In 2004, The *Organization for Development and International Cooperation* developed the principles of *the corporate governance* to be applied in most of the European countries, Eastern-Asia countries and the Arab countries including Jordan and these principles are as follows (OECD Organization for Economic Co-Operation and Development Publications Services, 2004):

1. Maintaining the rights of the shareholders and achieving the equivalence and equity in dealing with them, respecting them, and encouraging them to attend the meetings of the general assembly and participate in taking the important decisions.
2. Maintaining the rights of the stakeholders as lenders, employees, customers... etc.
3. Clarifying the tasks and the responsibilities of the board of directors by developing an organizational structure which clarifies (the tasks , the responsibilities , the methods and procedures and the mechanism which is followed in taking decisions , the existence of a qualified accounting of the company provides suitable financial information to take decisions.
4. Taking into account the principle of honesty and the professional behavior through honesty and integrity, credibility and responsibility.
5. Disclosure and transparency: the principle of disclosure and transparency is considered as an important basic in the basics of the system of the corporate governance because the administration of the company and other parties can achieve the highest benefit of the published financial data in making the decision and this principle is represented by providing voluntary disclosure in addition to the compulsory disclosure.
6. the social responsibility of the company, and it means the limitations of the company`s responsibilities do not stop at maintaining the shareholders' rights but extends to fulfill the social commitment towards its environment and to sacrifice a part of its profits for serving

the environment as training the employees, providing presents and donations to the charities and the public institutions.

4.4. The Guide of the Corporate Governorate of the Banks in Jordan

The Central Bank of Jordan issued the guide of the Jordanian corporate governance in 2007 to provide a criteria for the best international practices in this field and that is based on what is mentioned in the principles of the corporate governance issued by The *Organization for Economic Cooperation and Development (OECD) and the instructions of the Basel Committee* about enhancing the corporate governorate in the banks. And regarding this guide, every bank in Jordan should prepare its own guide that is consistent with its needs and policies and include the minimum level of the Central Bank`s requirements which are mentioned in the guide to be implemented starting from 31/12/2007.

5. EMPIRICAL EVIDENCE

5.1. Previous Studies

Many studies in Jordan discussed the topic of corporate governance in the previous few years , and the first one was the study of (Hanini, 2004) entitled by “ developing the system of the corporate governance in the Jordanian companies to enhance the independence of the certified auditor” which aimed to develop the system of the corporate governance in the Jordanian companies to enhance the independence of the certified auditor, and the study concluded that an integrated system for the corporate governance consisted of objectives and principles regarding the board of directors and its committees and the company`s relation with the shareholders affect positively the independence of the auditors.

And the study of (Abo Zer, 2006) entitled by “ A proposed strategy to improve the efficiency of the corporate governance in the banking sector” which aimed to develop a strategy to improve the efficiency of the corporate governance in the banking sector .

The study of (Matar and Nour, 2007) entitled by “ The extent of the Jordanian companies` commitment to the principles of the corporate governance “ which aimed to reveal the extent of the Jordanian public companies` commitment to the principles of the corporate governance and make an analytical comparison between the two sectors; the banking and the industrial companies. And the study concluded that the level of commitment of the banking center is higher than the industrial one and the most important points of defects or lack of commitment represented by the boards of director`s lack of commitment to the rule of the professional behavior and non-participation of the shareholders in taking strategic decisions for the company.

The study of (Matar, 2009) entitled by : “The Impact of Accounting systems and the professional criteria on enhancing the effectiveness and the efficiency of systems of corporate governance of the Jordanian companies” which aimed to reveal the impact of accounting systems and the professional criteria on enhancing the effectiveness and the efficiency of systems of the corporate governance of the Jordanian public companies. And the study was divided to two parts;

the first to display the theoretical framework of the corporate governance of the companies, while the second one was dedicated to the field study which was applied on a sample consisted of non-executive members in the boards of the companies, auditors, and the departments of control and supervision who are responsible to put the professional standards and follow up its execution and implementation which are: the Central Bank, Jordan Securities Commission and Jordan Association of Certified Public Accountants. And the study concluded that the accounting systems and the professional standards had a role in enhancing the effectiveness and the efficiency of the systems of the corporate governance and there were statically significant differences between the views of the three categories towards the relative importance of the professional standards.

6. THE METHOD OF THE STUDY

6.1. Sources of Collecting Data

The sources of data consisted of primary sources represented by the books, the studies, and the previous related studies to the topic of the study and the secondary sources which are represented by collecting data regarding the views of the sample of the study using the personal interviews with some managers of the auditing departments and the managers of the banks' branches in Jordan and a questionnaire, which is consisted of 42 items represented the hypotheses of the study, was designed regarding Likert Scale.

6.2. The Population of the Study and its Sample

The population of the study is consisted of the Jordanian banks, which are fifteen.

- 1- Jordan Kuwaiti Bank
- 2- Arab Bank
- 3- Bank of Jordan
- 4- Jordan Ahli Bank
- 5- The Housing Bank for Trade and Finance (HBTF)
- 6- Arab Jordan Investment Bank
- 7- Cairo Amman Bank
- 8- Jordan Islamic Bank
- 9- Jordan Trade Bank
- 10- Investment Bank
- 11- ABC Bank
- 12- Islamic International Arab Bank
- 13- Jordan Dubai Islamic Bank
- 14- Bank El Etihad
- 15- SOCIETE GENERAL Bank

But the sample of the study, which is selected randomly, consisted of 120 respondents of the assistants of the general managers, the managers of the administrations, the assistants of the managers of the branches and the employees of the departments of the audit in the Jordanian banks.

6.3. The Statistical Analysis of the Data

The following statistical methods were used to analyze the hypothesis according to SPSS:

6.3.1. Testing the Reliability of the Tool of the Study

Three members of the faculty reviewed the questionnaire to assure the reliability and the validity of it as the major tool of the study, and Cronbach Alpha was used to assert the internal reliability of the questionnaire's items and the internal consistency among the responses of the respondents which was 70% and this value is acceptable as it is higher than 60% so the results could be generalized.

6.3.2. Testing the Normal Distribution (Kolmogrov- Smirnov)

The test of the normal distribution was used to test the extent of following up the data of the natural distribution, and the results were distributed normally where the value of Z for all the hypotheses of the study is more than the level of the significance 5% as it is illustrated in the following table :

Table-1. The Normal Distribution Test

The hypothesis	The first	The second	The third	The fourth	The fifth	The sixth
z	1.566	0.918	1.402	1.007	1.458	2.32

6.3.3. Testing the Hypotheses of the Study

The hypotheses (which derived from study questions) were tested using One Sample T-Test at the level of the significance 5% and according to the decision of accepting the hypothesis if the calculated T is less than the tabled one. And the descriptive analytical method, which included the frequencies, the means and the standard deviations was used to accept or reject the items of the hypothesis (Sekaran, 2003) and the conclusions were as follows:

The First Hypothesis

The Jordanian banks are not committed to the principles of the corporate governance regarding maintaining the rights of the shareholders and treat them fairly, and this hypothesis was tested using the first seven items in the questionnaire. And the results were as follows:

Table-2. The Results of Testing the First Hypothesis

(T) calculated	(T) tabulated	T sig	The result of the null hypothesis	Mean
10.683	1.96	0.00	Rejection	3.57

Because of the calculated T is bigger than the tabled T, which means rejecting the null hypotheses and accepting the alternative one and this indicates that the Jordanian banks commit to the shareholders' rights and treat them fairly. And the following table shows the mean and the

standard deviation to each item of the items of the hypothesis which are arranged ascending according the means:

Table-3. The Items Regarding the First Hypothesis

N	Item	Standard deviation	Mean
3	The bank gives the right to vote to elect the members of the board of directors.	0.901	4.22
2	The bank invites the shareholders to attend the meetings of the general assembly and to participate in voting.	0.824	4.04
1	The bank guarantees the rights of the shareholders to get the annual profits whenever they are achieved.	0.948	3.98
7	All the shareholders are treated fairly and equivalently.	0.473	3.24
6	The shareholders have the right to read the minutes of the board of directors' meetings.	1.045	3.22
4	The bank guarantees the shareholders' rights to question the members of the board of directors.	1.00	3.2
5	The bank offers the shareholders the right to participate and on making the important decisions.	1.177	3.14

The previous table shows the positive attitudes of the respondents towards the banks' commitment to the shareholders' rights and treating them fairly, where the mean for all the items more than 3 and the standard deviation was about or less than 1 to the most of the items.

The Second Hypothesis

The Jordanian banks are not committed to the principles of the corporate governance regarding the maintenance of the stakeholders' rights and their treatment fairly. And this hypothesis was tested through the 8th item to the 16th one, and the results were as follows:

Table-4. The Results of Testing the Second Hypothesis

(T) calculated	(T) tabulated	T sig	The result of the null hypothesis	mean
20.362	1.96	0.00	Rejection	4.36

And because the calculated T is more than the tabled T, this means the rejection of the hypothesis and the acceptance of the alternative one; the Jordanian banks commit to the stakeholders' rights and their treatment fairly. And the following table shows the mean and the standard deviation to item of the items of the hypothesis arranged ascending according to the mean:

Table-5. The Items Regarding The Second Hypothesis

N	Item	Standard deviation	Mean
10	The bank provides proper and correct information for helping the stakeholders to make decisions.	0.61	4.55
9	The bank compensates the stakeholder any damage could happen because of a violation of their rights.	0.578	4.53
			<i>Continue</i>

16	The bank deals with other banks with commitment and reliability.	0.836	4.43
8	The bank gives the stakeholders their rights according to the laws and the systems.	0.955	4.35
15	The bank follows the regulations of the Central Bank and provides it with the required data with accuracy.	0.868	4.35
12	There is a system of salaries that achieve fairness among the employees.	0.77	4.35
11	There are fixed and specific regulations to the process of recruitment	0.821	4.25
14	The bank gives the depositors their rights and treats them well.	0.885	4.24
13	There are specific regulations regarding the employees' promotion.	1.00	4.20

The previous table shows the positive attitudes of the respondents towards the banks' commitment to the stakeholders and their treatment fairly where the mean of the all the items was more than 3 and the standard deviation was less than 1 for most of the items.

The Third Hypothesis

The Jordanian banks are not committed to issuing systems that identify the authorities of the board of directors and its executive administration. And this hypothesis was tested (item 17 to item 22 of the questionnaire), and the results were as follows:

Table-6. The Results Of The Third Hypothesis

(T) calculated	(T) tabulated	T sig	The result of the null hypothesis	Mean
14.52	1.96	0.00	Rejection	3.96

And because the calculated T is more than the tabled T , this means the rejection of the hypothesis and the acceptance of the alternative one ; the banks commit to issue systems that identify the authorities of the board of directors and its executive administration with its responsibilities. And the following table illustrated the mean and the standard deviation to each item of the items of the hypothesis.

Table-7. The Items Regarding The Third Hypothesis

N	Item	Mean	Std
17	There is an internal system identify the authorities and the responsibilities of the board of directors.	4.35	0.796
19	The board of directors holds circular meetings.	4.29	0.923
22	The bank's administration takes into consideration the suggestions of the audit committees.	4.22	0.879
20	The banks allows the general assembly of the shareholders to question the board of directors.	4.18	0.865
21	There is a good system for the internal control.	3.76	1.088
18	The board of directors controls the executive administration.	3.24	0.428

The previous table shows the positive attitudes of the respondents towards all of the items where the mean was more than 3 and the standard deviation was less than 1 for most of the items.

The Fourth Hypothesis

The members of the board of the directors and the executive managers in the Jordanian banks are not committed to the rules of the professional behavior in practicing their tasks. And this hypothesis was tested (from item 23 to item 28 of the questionnaire), and the results were as follows:

Table-8. the results of testing the third hypothesis

(T) calculated	(T) tabulated	T sig	The result of the null hypothesis	Mean
22.459	1.96	0.00	Rejection	4.14

And because the calculated T is more than the tabled T, this means the rejection of the hypothesis and the acceptance of the alternative one; the members of board of directors and the executive managers commit to the professional behavior in practicing their tasks and work. And the following table illustrated the mean and the standard deviation to each item of the items of the hypothesis.

Table-9.The Items Regarding The Fourth Hypothesis

N	Item	Mean	Standard deviation
28	The members of the board of the directors work with respect and responsibility if their interests opposed to the interest of the bank.	4.41	0.735
27	The members of the board of the directors keep the secrets of the bank.	4.37	0.774
25	The members of the board of the directors are characterized by independency.	4.35	0.744
26	The members of the board of the directors supports the independency of the external audit	4.35	0.744
23	The members of the board of the directors are characterized by honesty and reliability	4.27	0.918
24	The members of the board of directors help the committee of the audit to implement its work independently.	3.27	0.981

The previous table shows the positive attitudes of the respondents towards the all of the items of the fourth hypothesis where the mean was more than 3 and the standard deviation was less than 1 for most of the items.

The Fifth Hypothesis

The Jordanian banks are not committed to provide the transparency and the disclosure of the published data. And this hypothesis was tested (from item 29 to 35 of the questionnaire). And the results were as follows:

Table-10. The Results Of Testing The Fifth Hypothesis

(T) calculated	(T) tabulated	T sig	The result of the null hypothesis	Mean
18.26	1.96	0.00	Rejection	3.94

And because the calculated T is more than the tabled T, this means the rejection of the hypothesis and the acceptance of the alternative one; the banks commit to provide the transparency and the disclosure of the published data. And the following table illustrated the mean and the standard deviation to each item of the items of the hypothesis.

Table-11. The Items Regarding The Fifth Hypothesis

N	Item	Standard deviation	Mean
35	The bank discloses the expected risks.	0.572	4.59
29	The bank puts and announces its objectives	0.781	4.43
30	The bank announces its annual plans	0.796	4.35
32	The bank publishes the financial annual reports, which are audited with accuracy and transparency.	1.00	4.20
31	The bank announces the qualifications of the members of the board of directors and the executive managers with transparency and honesty.	0.985	4.10
34	The bank discloses the material transaction and the contracts with transparency with the external parties	0.935	3.25
33	The bank publishes financial audited data	0.909	2.88

The previous table shows the attitudes of the respondents towards the all of the items of the fifth hypothesis where the mean was more than 3 except the item regarding publishing audited data and the standard deviation was less than 1 for most of the items.

The Sixth Hypothesis

The banks are not committed to fulfill the social responsibility towards the society. And this hypothesis was tested (item 36 –item 42 of the questionnaire) and the results were as follows:

Table-12. The Results of the Sixth Hypothesis

(T) calculated	(T) tabulated	T sig	The result of the null hypothesis	Mean
23.88	1.96	0.00	Rejection	4.63

And because the value of the calculated T is bigger the value of the tabled T, which means the rejection of the null hypothesis and the acceptance of the alternative one. So the banks commit to

fulfill the social responsibility towards the society. The following table shows the mean and the standard deviation of each item of the items of the hypothesis.

Table-13. The Items Regarding The Fifth Hypothesis

N	Item	Standard deviation	Mean
36	The bank committees to the laws and the regulation used in Jordan.	0.510	4.69
37	The banks pay its taxes on time.	0.449	4.69
39	The bank provides financial donations to the charities.	0.559	4.65
40	The bank held training courses to its employees.	0.63	4.63
38	The bank participates in improving the environment.	0.568	4.61
41	The bank provides proper healthy circumstances to its employees.	0.671	4.57
42	The bank serves the society by adopting projects of development.	0.563	4.54

The previous table shows the positive attitudes of the respondents towards all of the items of the hypothesis where the mean was more than 3 and the standard deviation was less than 1 for most of the items.

7. CONCLUSION

After having the needed statistical analysis, the study concluded the following:

- 1- The Jordanian banks are committed to the principles of the corporate governance regarding maintaining the rights of the shareholders and treating them fairly through inviting the shareholders to the meetings of the general assembly and participating in voting, and maintaining the rights of the shareholders in getting the annual profits whenever they are achieved, informing them about the minutes of meetings of the Board of Directors, maintaining the shareholders' rights in participation and voting on important decisions, controlling the works and questioning the members of the board of directors when there is a need.
- 2- The Jordanian banks are committed to the principles of the corporate governance regarding maintaining the rights of the stakeholders and treating them fairly through providing suitable correct information to help the stakeholders make decisions and compensating them in the case any damage happened for being given wrong information or disclosures and dealing with other banks with commitments and reliability. The bank is committed to the systems and the laws, follows the regulations of the Central Bank, and provides it with the accurate data and maintaining the rights of the depositors and treating them well, and having a specific and suitable system to promote the employees of the bank.

- 3- The Jordanian banks are committed to the principles of the corporate governance regarding issuing systems that identify the authorities of the board of the directors and the executive administration and its responsibilities. And the board of directors hold circular meetings. The administration of the bank takes into account the suggestions of the auditing committee. And there is a good system for the internal control in the bank, and the work of the executive administration is controlled by the board of the directors.
- 4- The members of the board of directors and the executive managers in the banks are committed to the rules of the professional behavior in practicing their tasks where these members behave with responsibility and respect if their interests interfered with the bank's interest and they keep the secrets of the bank and behave with reliability and honest . They also help the internal and external audits to do their work independently.
- 5- The Jordanian banks are committed to provide the transparency and disclosure by the published information; the disclosure of the minutes of the meetings, the announcement of its objectives and future plans and the qualifications of the members of the board of directors, and the executive managers with transparency and reliability. The banks also publish the annual financial reports, which are previously audited with accuracy and transparency and the disclosure of the contracts and the material transactions.
- 6- The Jordanian banks are committed to fulfill the social responsibility towards the society where they commit to the laws and the systems that are used in Jordan ,and they pay the taxes owed to the government in the specified date , provide financial donations to the charities , take care of the environment , serve the society through projects of development , care of their employees where training courses are held to them to develop their skills , and make sure the availability of the proper healthy conditions to their employees.

8. RECOMMENDATIONS

Based on the results of the study, the researcher recommended the following:

- 1- The control and the supervision departments of the banks encourage and support the banks' commitment to the principles of the governance regarding the social responsibilities for the sequences they have on the development and reform.
- 2- The banks establish a special committee named the committee of the corporate governance cares of planning, guiding, revising and controlling the governance operations and handle the corrective procedures when there is a need.
- 3- The banks form a special committee to appoint the employees and train them, put the principles for promoting them, and provide the proper social, economic and healthy circumstances.
- 4- The Jordanian banks focus on the principals of choosing the committees of their internal audit as choosing a group of people who are characterized by scientific and practical

qualifications and the good banking experience and they have high morals because of the vital role the committee plays in the bank.

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