AN INVESTIGATION OF CORPORATE GOVERNANCE FROM A NEW PERSPECTIVE: EXAMINING THE FINANCIAL PERFORMANCE OF COMPANIES AND THE IMPACT OF EXECUTIVE TURNOVER

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Abstract

The aim of this paper is to investigate the mechanisms of corporate governance in companies and to delineate their effect from the perspective of two variables: the financial performance of firms; and an examination of executive turnover. An analysis on theoretical grounds of these two variables is made with respect to non-financial companies specifically in the context of the country of Jordan. Also in the context of this study, a company represents a firm. A sample comprising 109 companies from the non-financial sector for the fiscal year 2011 was selected and analyzed. A cross sectional study tested all hypotheses of the study and used statistical software, SPSS 20, to analyze the data. The study has examined the structure of the board of directors and its effects on the financial performance (financial leverage) of the non-financial Jordanian companies. Evidence suggests that the corporate governance mechanisms such as increasing the board size has a positive effect on reducing the level of financial leverage, thus leading to enhanced levels of financial performance. On the other hand, board independence and the structure of non CEO-duality have no effect on a company's financial performance. In addition, the findings revealed that executive turnover has been found to significantly moderate the relationship between some of the factors and that is the board size and financial leverage. Given the diversity of trends utilized to measure the financial performance of companies in the area of corporate governance and the associated performance relationship, empirical research has continued to undergo new financial performance indicators to prevent manipulation and to obtain a realistic picture of the financial performance of companies. Hence, this is the first study that internationally chooses financial leverage to represent the financial performance of companies in their relationship with corporate governance. Crucially, it is globally the first study to choose executive turnover as a moderating variable on such a relationship. Thus, choosing these two new variables uniquely contributes to the literature of both corporate governance and firm performance from the perspective of developed and developing countries. This is considered to extend and add new insights to prior research in this discipline. The study therefore provides empirical evidence to policy-makers, stakeholders, academia and other interested parties in the Middle East; specifically in Jordan.

Keywords: Corporate Governance, Financial Leverage, Executive Turnover, Jordan

1. INTRODUCTION

Corporate governance is a collection of ideas represented by mechanisms and principles, and if collected and arranged in a convenient and logical manner, it is conducive to the business environment and it will become a system which is precise. Furthermore, when the steps of corporate governance are followed properly the applications will bring positive results which give added value to all interested stakeholder parties and that includes investors, customers, employees and any other parties having a vested interest. Corporate governance is concerned with controlling the performance of a company's executives in such a way that mitigates the conflict of interest between the shareholders and the management. In doing so it is important to ensure the best practices to improve disclosure and transparency and protect all interested parties are introduced and implemented. Internationally, in recent times corporate governance