THE PERFORMANCE OF COMPANIES AND THE BOARD'S CHARACTERISTICS FROM THE NEW PERSPECTIVE OF MANIPULATION AVOIDANCE

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Abstract

From the outlook of regional development in the Middle East, a current exploration of the relationship between the corporate governance system and the performance of companies is extremely important and timely, especially after the impact of the latest financial crises, as a means of enhancing and improving the region's business efficiency leading to economic growth of the region. The aim of this paper is to investigate the effect of the board's characteristics in association with the performance of companies in the context of the business environment in the Middle East and specifically by examining the country of Jordan. In addition to examining the board's characteristics, this study also investigates the relationship between the board's characteristics of managerial ownership and the duality or the non-duality of the role of the Chief Executive Officer (CEO) as one of the important mechanisms of corporate governance and a company's performance using both traditional measurements of return on assets (ROA) and return on equity (ROE) and contemporary ones of market share measurement of a company's performance to avoid manipulation. The data for the current study is obtained from one source, namely the secondary data of the annual reports. The sample companies comprise 50 non-financial companies listed on the Amman Stock Exchange (ASE) website for the fiscal year ended in 2013. Multiple regression analysis is used to evaluate the relationship between the variables. The results of the previous studies have revealed that managerial ownership and non-duality in various segments have an inverse association with monitoring costs as mentioned in the agency theory. This finding is consistent with findings of the current study for market share measurement and not consistent, however, with ROA and ROE. The current study presents a unique contribution to the corporate governance area relating to the effect of the board's characteristics in relation to the performance of Jordanian companies. Previous studies examining developed and developing countries have placed an emphasis on financial measurements to measure the financial performance of companies without mentioning the considerable role of manipulation methods in financial statements. The manipulation methods include income smoothing, earnings' management, creative accounting and big bath accounting, which is an earning management strategy that may affect a real picture of a company's performance being given. Thus, the current study provides evidence that supports the notion that this fundamental issue of manipulation methods and avoidance of manipulation has been neglected in prior research in the Middle East as well as in Western countries. Accordingly, this study provides evidence to compare the traditional methods with ones that avoid manipulation.

Keywords: The Board's Characteristics; A Company's Performance; Manipulation; A Company's Size; Industry Type, Jordan

1. INTRODUCTION

The topic of corporate governance has received widespread attention as one of the most important issues in the sphere of governments, within organizations and also in other fields (Shleifer & Vishny, 1997). The corporate governance system addresses an extensive variety of subjects in its association with financial performance (Chaghadari, 2011). However, corporate failures and global scandals in famous corporations such as the cases of Enron, Arthur Andersen, and other scandals, have contributed to the argument regarding whether companies should issue or use new perspectives as new trends to measure a company's performance as important targets to ultimately maximize the wealth of the shareholders (Alabdullah, Yahya & Ramayah, 2014). In adopting a new perspective, this examination also will focus attention on the way in which companies are governed and what measurements are used for a company's performance in association with the structures of corporate governance.

Good corporate governance is focused on the mechanisms, principles and responsibility in the management of a company. Corporate governance and its existence in a company is an effort to reduce problems between the principal and its agent regarding the separation of ownership and control (Chen, Chen & Wei, 2009). The agency theory explains the conflict between shareholders and managers and the arising agency costs between