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...
them. The separation between these two parties has been taken into consideration as one of the most important and contentious matters in the literature examining accounting and management practices and procedures.

The board’s characteristics, as admitted by the previous studies, are considered as one of the most important corporate governance mechanisms, such as the managerial ownership and CEO duality together with their relationship with the company’s performance (Abor & Biekpe, 2007; Chaghadari, 2011). Moreover, the authors of the majority of the previous studies made the decision to investigate two control variables in the multiple regression models regarding the relationship between corporate governance and a company’s performance. These two variables are industry type and a company’s size (Alabdullah et al., 2014; Ho & Wong, 2001). Brooks (2014) claimed that a company’s size is an important control variable to be tested in the model due to a likely significant effect on the dependent variable. Therefore, a company’s size and the industry type were introduced as control variables in this study. Furthermore, these control variables have been used by a number of previous studies in the field of study of corporate governance and the performance of companies (Connelly, Limphaphayom & Nagarajan, 2012).

Researchers and scholars of corporate governance have given more attention to the problem of the principal-agent relationship (Fama, 1980; Ross, 1973; Shleifer & Vishny, 1997). The recent financial crises faced by several countries led companies and other interested parties to take an interest in adopting good corporate governance. The challenge of developing countries has encouraged a suite of different measures worldwide, such as the Sarbanes-Oxley Act in 2002 which regulates corporate governance as a control system to ensure compliance and best practice corporate governance is adopted (Alabdullah, Yahya, & Ramayah, 2014). To enhance economic growth and development, the Amman Stock Exchange (ASE) in Jordan established a corporate governance code in 2009 (Makhlof, Lalii & Basah, 2014) to intervene in the cases of a lack of good performance and mismanagement in the Jordanian companies to enable these companies to improve their financial performance (Al-Qaisi, 2013; Al-Zawahreh & Cox, 2009).

A best practice of corporate governance is the way in which a company's performance can be improved. This stark reality was realized by several interested parties including stakeholders in order to protect their interests in the best possible way. Thus, the authorities in Jordan identified good corporate governance as a requirement for developing the country to enhance its economic growth. In the past few decades, the previous literature on corporate governance and the discipline of performance of companies has been examined by using different theories. The majority of studies in the literature have confirmed that corporate governance is the control system that significantly impacts upon a company’s performance.

Recently, intensive and serious studies in developed countries have investigated the performance of companies. However, little attention has been given to this important topic in the developing countries and Jordan is no exception (Alabdullah et al., 2014). Thus, the present study will analyze the relationship between the board’s characteristics (managerial ownership and CEO duality or non-duality) and the performance of companies in Jordan. The current study has utilized three profitability measures to examine a company’s performance and that is by way of ROA, ROE and market share. Using data from the ASE website a sample was taken from 50 listed companies, and it was revealed that there is a significant positive relationship between managerial ownership and non-duality, and their respective market share. On the other hand, this study further showed that the company’s size and its industry type have no effect on the market share. The study also revealed that managerial ownership and CEO duality have no impact on the ROA. Furthermore, the findings show that industry type has negative impact on the ROA.

Importantly, this study significantly contributes in several ways to the existing literature examining the relationship between corporate governance and financial performance. Firstly, it utilized for the first time market share as a measurement to measure a company’s financial performance in its relationship with the board’s characteristics (managerial ownership and CEO duality) as a way of preventing the manipulation in all contexts (including the Jordanian one) in its relationship with a company’s performance. Accordingly, from both the perspective of developed and developing countries, the current study uniquely contributes to the literature that has investigated corporate governance mechanisms and the performance of companies. Secondly, the findings also revealed that the board’s characteristics have some influence on market share.

The present governance framework, providing an introduction, followed by Section 2 which outlines the literature review and explains the research hypotheses. Section 3 explains the sample, data and methodology used in the present study. Section 4 sheds light on the results and provides a discussion concerning the regression analysis, while the last section reveals a number of concluding remarks.

2. LITERATURE REVIEW AND RESEARCH HYPOTHESES

The origin of the concept of corporate governance and its design is based on the principles of the agency theory as mentioned by Alabdullah et al. (2014). Corporate governance was established to guarantee the agent has responsibility to protect and maximize the interests of stakeholders and other investors. Previous studies have proved that internal and external mechanisms have played a key role to reduce agency problems (Shleifer & Vishny, 1997). The board’s characteristics, such as managerial ownership and CEO duality or non-duality, are considered as one of the important internal corporate governance mechanisms that significantly impact upon a company’s performance. Empirical evidence reveals that the relationship between the board’s characteristics and a company’s performance can either be negative (Baert & Vennet, 2009), positive (Abor & Biekpe, 2007), or of no impact (Ehikioya, 2009).

Several previous studies have focused on the association between corporate governance and a company’s performance through providing empirical evidence related to the corporate governance
mechanisms. Globally, these studies in developed and developing countries, at the international and local levels, have not tested the relationship between a board’s characteristics represented by CEO duality or non-duality and managerial ownership, and the financial performance represented by market share, ROA and ROE as measurements of a company’s financial performance. However, the only study undertaken (Alabdullah et al., 2014) chose only market share to represent a company’s financial performance in its relationship with the board size, independence of the board and CEO duality.

From the findings of the literature review a number of studies have indicated that an increasing managerial ownership in a company is an important factor that decreases the agency costs and encourages managers to promote the company’s performance (Klein, 1998; Kren & Kerr, 1997; Kumar & Singh, 2013). For example, Klein (1998) found there is a positive relationship between managerial ownership and ROA. Also, Klein (1998) demonstrated that there is a positive relationship between managerial ownership and ROA and return on common stock. This is in line with the agency theory as explained by Jensen and Meckling (1976). Therefore, the present study predicts that increasing the level of managerial ownership will increase a company’s performance and this leads to the following three hypotheses being made:

1. H1: There is a positive relationship between managerial ownership and market share; and
2. H2: There is a positive relationship between managerial ownership and ROA; and
3. H3: There is a positive relationship between managerial ownership and ROE.

The first hypothesis in the present study is whether or not one person serves as the chairman and the CEO of the company and this is known respectively as CEO duality or CEO non-duality. It is one of the essential components of overall quality of the mechanism of corporate governance. As mentioned previously, companies that have one person serving as both the CEO and chairman are said to have CEO duality and this situation leads to a company being more managerially dominated (Ho & Wong, 2001).

Previous studies have revealed that the existence of chairman who is not also the CEO is an important matter to be considered in a company’s governance structure. The role of CEO and chairman, as a fundamental monitoring mechanism, is based on the agency theory (Chaghadari, 2011). In examining non-duality, it can weaken the chief executive officer’s (CEO’s) power and higher board oversight. On the other hand, the existence of duality in leadership might contribute to the lack of accountability and transparency within a company. According to the idea and essence of the agency theory, Fama & Jensen (1983) revealed that companies with non CEO duality perform better than those with no separation of the roles. Several previous studies in the literature (Grove, Patelli, Victoravich & Xu, 2011; Rechner & Dalton, 1991; Yermack, 1996), indicated that when there is non-duality, a company’s performance is enhanced.

Therefore, it is hypothesized that:
1. H4: There is a positive relationship between a company and its market share when the corporate governance is not in the form of CEO duality.
2. H5: There is a positive relationship between a company and its ROA, when the corporate governance is not in the form of CEO duality.
3. H6: There is a positive relationship between a company and its ROE when the corporate governance is not in the form of CEO duality.

It is worth mentioning that previous studies relied upon measurements such as Tobin’s Q, ROA, ROE, and other profitability measurements to measure a company’s financial performance in both developed and developing countries, and specifically in Jordan (see Al-Akra & Hutchison, 2012; Amran & Che-Ahmad, 2009; Grove et al., 2011; Vo & Nguyen, 2014). Nevertheless, such studies did not make mention of the possibility of ways in which manipulation could occur; such as methods of income smoothing behavior that could be used by management and could lead to misleading the results in the financial statements, particularly in relation to net income. Accordingly, the present study adds a new perspective to the literature examining corporate governance mechanisms and the performance of companies. In examining the performance of companies, the current study intends to use the market share as an indicator for measuring financial performance.

Alabdullah et al. (2014) indicated that market share is an appropriate measure of a company’s performance. This measurement also assists with respect to moving away from practices of income smoothing and other manipulation behaviors which may be used by management as the market share is calculated by dividing the sales revenue of the sector’s total sales. Consequently, this measurement will be away from costs; in that it gets largely away from manipulation through accounting smoothing. Since market share is calculated as the net sale of a company divided by the total sales of the industry, using this measurement will help avoid the issue of manipulation, if any exists. The justification is that the market share indicator deals with sales, where sales processes are either represented by cash or by credit. This means there would be a case of dealing with only two accounts; that is cash and receivables. In more detail, this would establish that such an indicator avoids dealing with expenses. In this case, manipulation is a process exclusively related to expenses rather than sales.

3. SAMPLE AND METHODOLOGY

3.1. Source of Data Collection and Variables Measurement

The present study investigates the relationship between corporate governance represented by the board’s characteristics of managerial ownership and CEO duality or non-duality, and a company’s performance expressed by market share, ROA and ROE in Jordan’s non financial companies and they are companies in the industrial and service sector. For this study the sample of the non-financial listed companies in Jordan comprised a cross-sectional examination by collecting the secondary data from the annual reports for the year 2013. The study chose companies listed on the ASE as it is one of the largest stock exchanges in Asia. Furthermore, Jordan has played a significant role as one of the important emerging economies. Nevertheless, the non-financial
companies in Jordan were not immune from the performance related problems, specifically over the last a few years (Al-Qaisi, 2013).

The current study measured the dependent variables of financial performance via the market share, ROA and ROE. The independent variables have been identified as the managerial ownership (MOwner) and whether or not there is CEO duality (CEOduality). In addition, a company's size (Cosize) and its respective industry are the control variables. Table 1 provides a summary of the measurement of the variables.

Table 1. Summary of the Measurement Variables

<table>
<thead>
<tr>
<th>Number</th>
<th>Variables</th>
<th>Acronym</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dependent Variable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Market Share (as a percentage)</td>
<td>Market Share</td>
<td>Market share is net sales divided by the total sales of the industry.</td>
</tr>
<tr>
<td>2</td>
<td>Return on Assets (as a percentage)</td>
<td>ROA</td>
<td>Return on assets is measured as the percentage of net income to total assets.</td>
</tr>
<tr>
<td>3</td>
<td>Return on Equity (as a percentage)</td>
<td>ROE</td>
<td>Return on equity is measured as a percentage of net income to common equity.</td>
</tr>
<tr>
<td></td>
<td>Independent Variables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Managerial Ownership (as a percentage)</td>
<td>MOwner</td>
<td>Managerial ownership is measured as the percentage of total shares held by a company's directors and officers.</td>
</tr>
<tr>
<td>5</td>
<td>CEO duality</td>
<td>CEOduality</td>
<td>DEO duality is dummy variable. Whether or not the chairman is also the CEO during the year, where it will take the value of &quot;1&quot; if the CEO is also the chairman of the board, and &quot;0&quot; otherwise.</td>
</tr>
<tr>
<td></td>
<td>Control Variables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Company's Size (number)</td>
<td>Cosize</td>
<td>Natural logarithmic of the company's total assets.</td>
</tr>
<tr>
<td>7</td>
<td>Industry type (number)</td>
<td>Industry</td>
<td>Dummy variable with &quot;1&quot; assigned if it is an industrial company and &quot;0&quot; if it is a service company.</td>
</tr>
</tbody>
</table>

The models used in the present research for analysis included specific variables, with the specific variables of managerial ownership, CEO duality, size and the industry type also possibly impacting on a company's performance; in other words influencing their market share, ROA and ROE. To examine the relationship between the board’s characteristics and a company’s performance in developing countries, a cross-sectional study was adopted through collecting the real data from the annual reports for the year 2013. A multiple linear regression analysis was estimated to link a direct relationship between the independent and dependent variables, after controlling for some company-specific characteristics that lie in the company's size and its industry type. The models of this study are defined by the following equations.

\[
\text{Marketshare} = \alpha + \beta_1 \text{MOwner} + \beta_2 \text{CEOduality} + \beta_3 \text{Cosize} + \beta_4 \text{industry} + \varepsilon \quad (1)
\]

\[
\text{ROA} = \alpha + \beta_1 \text{MOwner} + \beta_2 \text{CEOduality} + \beta_3 \text{Cosize} + \beta_4 \text{industry} + \varepsilon \quad (2)
\]

\[
\text{ROE} = \alpha + \beta_1 \text{MOwner} + \beta_2 \text{CEOduality} + \beta_3 \text{Cosize} + \beta_4 \text{industry} + \varepsilon \quad (3)
\]

4. RESULTS AND DISCUSSIONS

4.1. Descriptive Analysis

This section provides the descriptive analysis of the study’s dependent and independent variables for the 50 non-financial (industrial and service sector) companies listed at ASE through using descriptive statistics such as mean, standard deviation, minimum and maximum. Table 2 explains the distribution of the variables. Based on the results of the descriptive statistics, the dependent variables of market share, ROA and ROE revealed that the mean market share of Jordanian industrial and service companies is 43.2% with a standard deviation of 0.292. Moreover, a minimum rate of market share in the Jordanian non-financial companies is 5.1% with a level of market share equal to 91%. The mean ROA of the Jordanian industrial and service companies is 252.9% with a standard deviation of 3.0. Furthermore, the minimum rate of ROA is -31.1% with the highest maximum level of ROA equal to 88.8%. For ROE the findings show the mean of ROE is 280% with a standard deviation of 3.58. In addition, the minimum rate of ROE in the Jordanian non-financial companies is 0.0 with the highest level equal to 120.7%. In relation to the frequency of CEO duality, as a dummy variable, Table 2 shows that CEO duality in the sample of the non financial companies in Jordan was 38.0% equating to 19 companies, while 62.0% of the companies did not have duality (non duality) and this equated to 31 companies.

In Table 2, the results also revealed that the values for the skewness and kurtosis show that the study sample is normally distributed because they are within the accepted range of normality for both kurtosis and skewness. Brooks (2014) shows that the normality of data might be achieved when standard skewness ±1.96 and standard kurtosis is within ±3.
4.2. Correlation Analysis

The correlation between the dependent and independent variables is explained in Table 3. The results reveal that one independent variable and that is CEO duality (CEOduality) has a negative relationship with market share and managerial ownership (MOwner) has a positive relationship with market share, with values (CEOduality -0.500), (MOwner 0.514). Table 3 also shows that managerial ownership has a negative relationship with ROA and positive relationship with CEO duality with the value (MOwner -0.0206), (CEOduality 0.130). In addition, the same result was found with ROE with (MOwner -0.135), (CEOduality 0.122). The Table reveals that managerial ownership has a highly positive relationship with market share with a value of 0.514. Moreover, the level of multicollinearity between the independent variables should be less than 80% as suggested by Yoshikawa & Phan (2003). For this study, the researcher found the data did not have any multicollinearity problems, in that it often requires 80% or more to indicate that the correlations between the independent variables to have multicollinearity problems. Table 3 below reports the correlations of the variables.

Table 2. Descriptive Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Share</td>
<td>0.432</td>
<td>0.292</td>
<td>0.001</td>
<td>0.910</td>
<td>0.457</td>
<td>-0.092</td>
</tr>
<tr>
<td>ROE</td>
<td>2.80</td>
<td>3.581</td>
<td>0.000</td>
<td>12.07</td>
<td>1.077</td>
<td>-0.004</td>
</tr>
<tr>
<td>MOwner</td>
<td>0.448</td>
<td>0.277</td>
<td>0.000</td>
<td>0.840</td>
<td>-0.151</td>
<td>-1.239</td>
</tr>
<tr>
<td>CEOduality</td>
<td>0.38</td>
<td>0.490</td>
<td>0.000</td>
<td>1.0</td>
<td>0.510</td>
<td>-1.814</td>
</tr>
</tbody>
</table>

Table 3. Correlations between Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>MOwner</th>
<th>CEOduality</th>
<th>Market Share</th>
<th>ROA</th>
<th>ROE</th>
<th>Cosize</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOwner</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEOduality</td>
<td>-0.225</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Share</td>
<td>0.514**</td>
<td>-0.500**</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>-0.206</td>
<td>0.130</td>
<td>-0.151</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>-0.135</td>
<td>0.122</td>
<td>-0.126</td>
<td>0.508**</td>
<td>1.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cosize</td>
<td>-0.159</td>
<td>0.060</td>
<td>-0.070</td>
<td>0.177</td>
<td>-0.012</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>-0.129</td>
<td>0.124</td>
<td>-0.118</td>
<td>-0.313**</td>
<td>-0.246</td>
<td>0.102</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Level of significance *p < 0.05, **p < 0.01

4.3. Multiple Linear Regression Analysis

In the present study, linear regression analysis was applied to determine the direction of the relationship between the independent and dependent variables in accordance with a widespread statistical method utilized in several studies and science disciplines (Alabdullah et al., 2014).

\[
\text{Market share} = \alpha + \beta_1 \text{MOwner} + \beta_2 \text{CEOduality} + \beta_3 \text{Cosize} + \beta_4 \text{industry} + \varepsilon
\]  

(4)

Based on a company’s performance measured by market share, Model 1 is defined by the following equation:

Table 4 below shows the regression results indicating that the R square value is 0.421 for market share. This means that R square value explains 42% of the independent variables (MOwner and CEOduality) on the dependent one of market share.

Table 4. Regression Results for Market share

<table>
<thead>
<tr>
<th>Model</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>R Square</td>
<td>0.421</td>
</tr>
<tr>
<td>Sig F Change</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The autocorrelation is also examined through using the Durbin Watson (DW) test. In this respect, the DW of 2.041 is a good value since it is more than 1 and falls between the acceptable range of 1.5–2.5 as argued by Knoke (2003) and it reveals there is no autocorrelation problem in the data.

Table 5. Regression Statistic analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>Beta</th>
<th>t- value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOwner</td>
<td>0.417**</td>
<td>3.507</td>
<td>0.001</td>
</tr>
<tr>
<td>CEOduality</td>
<td>-0.407**</td>
<td>-3.456</td>
<td>0.001</td>
</tr>
<tr>
<td>Cosize</td>
<td>-0.031</td>
<td>-0.28</td>
<td>0.793</td>
</tr>
<tr>
<td>Industry</td>
<td>-0.011</td>
<td>-0.099</td>
<td>0.922</td>
</tr>
</tbody>
</table>

Level of significance *p < 0.05, **p < 0.01
The results of regression analysis reveal that the company's size and the type of industry are insignificant with the market share. For the current study, the testing of hypotheses for model 1 involving the association between every independent variable and the dependent ones is shown in Table 5. There is a highly significant positive impact relationship between the managerial ownership (MOwner) and the market share ($\beta = 0.417$, $T$-value = 3.507, $P < 0.01$). This indicates that a company's financial performance is significantly influenced by the managerial ownership in the non-financial listed companies in Jordan. This result is consistent with the current study's set of objectives. The study has deduced that a significant relationship exists between a company’s managerial ownership and its market share. This result is in line with prior studies undertaken both in developed and developing countries (See Abor & Biekpe, 2007; Al-Khoury, 2005; Kren & Kerr, 1997; Kumar & Singh, 2013). Thus, hypothesis H1: there is a positive relationship between managerial ownership and market share, is supported. The findings indicate that the higher the level of managerial ownership in non-financial companies (industrial and service companies) in Jordan, the higher the level of market share (better performance). This result is in line with agency theory perspective. Therefore, this
result matches with the findings in the prior studies demonstrating that managerial ownership improves a company’s performance.

With respect to the association between CEO duality and financial performance (market share), testing of the hypotheses of the present study found a negative and significant relationship exists between CEO duality and market share at $P < 0.01$, $T$-value = -3.456, $\beta = -0.407$. This means that there is a positive and significant relationship between companies which do not have CEO duality and their market share. This is in line with the hypothesis H4: There is a positive relationship between companies which do not have CEO duality and market share. Therefore, hypothesis H4 is supported. This result is consistent with the previous studies in the literature. They recommended the need to separate the position of the chairperson and the CEO to ensure the independence of the board for optimum performance of a company (see Chaghadari, 2011; Rechner & Dalton, 1991; Yermack, 1996).

4.3.2. Regression Results of Model 2

Based on a company’s performance as measured by its ROA, for the current study Model 2, as presented previously, can be defined by the following equation:

$$ROA = \alpha + \beta_1 MOwner + \beta_2 CEOduality + \beta_3 Cosize + \beta_4 industry + \epsilon$$

Table 6 provides the results of the regression analysis and shows that R square value is 0.211 for the ROA. This means that R square value can explain 21% of the independent variables of CEO duality and managerial ownership on the dependent variable of the ROA.

Table 6. Regression Analysis for the Return on Assets

<table>
<thead>
<tr>
<th>Model</th>
<th>ROA</th>
</tr>
</thead>
<tbody>
<tr>
<td>R Square</td>
<td>0.211</td>
</tr>
<tr>
<td>Sig F Change</td>
<td>0.154</td>
</tr>
</tbody>
</table>

The current study also examined the autocorrelation by using the Durbin Watson (DW) test. In this respect, the DW value of 1.180 is an accepted value since it is more than “1” and it reveals there is no autocorrelation problem in the data.

In Table 7, the regression analysis was run between all the variables that have been chosen in the present study represented by the independent variables, control variable, and the dependent variable of ROA. The results show that managerial ownership (MOwner) has a negative relationship with ROA ($MOwner \beta = -0.190$). The table shows that the variable of CEO duality has a positive relationship with the market share (CEOduality; $\beta = 0.147$). However, the control variable of industry type has a negative relationship with the ROA (industry; $\beta = -0.376$) whilst the company’s size (log of total assets) has a positive relationship with the ROA (Cosize; $\beta = 0.195$).

Table 7. Regression analysis for ROA

<table>
<thead>
<tr>
<th>Variables</th>
<th>Beta</th>
<th>$t$-value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOwner</td>
<td>0.190</td>
<td>-1.373</td>
<td>0.172</td>
</tr>
<tr>
<td>CEOduality</td>
<td>0.147</td>
<td>1.070</td>
<td>0.290</td>
</tr>
<tr>
<td>Cosize</td>
<td>0.195</td>
<td>1.441</td>
<td>0.156</td>
</tr>
<tr>
<td>Industry</td>
<td>-0.376***</td>
<td>-2.787</td>
<td>0.008</td>
</tr>
</tbody>
</table>

Level of significance **$p < 0.05$, ***$p < 0.01$.

The results of regression analysis shows that the company's size does not have a significant impact on the ROA ($\beta = 0.195$, $T$-value = 1.441, $P > 0.1$), while the industry type has a significant relationship with the ROA ($\beta = 0.376$, $T$-value = -2.787, $P < 0.1$). For the current study, the testing of the hypotheses for Model 2 regarding the relationship between every independent variable and the dependent ones is shown in Table 7. There is an insignificant negative impact on the relationship between the managerial ownership (MOwner) and the ROA ($\beta = -1.190$, $T$-value = -1.373, $P > 0.1$). This indicates that a company's financial performance is not influenced by the managerial ownership of the non-financial listed companies in Jordan. This result is inconsistent with what the current study proposes. Conversely, the study had hypothesized that a significant relationship exists between the
managerial ownership and the ROA. Nevertheless, this result is in line with prior studies that were carried out in both developed and developing countries (see Chaghdatari, 2011; Grove et al., 2011). They mentioned that there is no relationship between managerial ownership and the ROA. Thus, hypothesis H2: There is a positive relationship between managerial ownership and ROA is not supported.

With respect to the association between CEO duality and financial performance (ROA), testing of the hypotheses of the present study found an insignificant relationship exists between CEO duality and ROA at $\beta = 0.147$, $T$-value = 1.070, $P > 0.1$. This is not in line with H5: There is a positive relationship between a company and its ROA, when the corporate governance is not in the form of CEO duality. Therefore, hypothesis H5 is not supported. However, this result is consistent with previous studies in the literature (Mashayekhi & Bazaz, 2008; Yoshikawa & Phan, 2003).

4.3.3. Regression Results of Model 3

Based on a company’s performance measured by the ROE for the current study, Model 3 can be defined by the following equation:

$$\text{ROE} = \alpha + \beta_1 \text{MOwner} + \beta_2 \text{CEOduality} + \beta_3 \text{Cosize} + \beta_4 \text{industry} + \varepsilon \quad (6)$$

However, the current study will not present details regarding this model due to the results of ANOVA testing. The model is insignificant with significance value of 0.285.

5. CONCLUSION

The study’s objective was to investigate the relationship between the board’s characteristics represented by managerial ownership and CEO duality as important corporate governance mechanisms, and the companies’ financial performance using cross-section data of a sample of 50 listed Jordanian non-financial companies from the website of Amman Stock Exchange (ASE). The present study used three types of financial performance measurements: market share; return on assets (ROA) and return of equity (ROE). The current study contributes to the existing body of literature concerning corporate governance and performance of companies from a new perspective to avoid the manipulation of income smoothing, earnings management, creative accounting and big-bath accounting through utilizing the measurement of the dependent variable of market share which is free from manipulation.

After analysis, the present study found the following key issues. There is a positive and significant relationship between managerial ownership and a company’s market share. This implies that there is a positive and significant relationship between such a mechanism and financial performance. Furthermore, there is a positive relationship between companies which do not have CEO duality and their market share.

This indicates that the relationship between these mechanisms and financial performance is significant. In addition, the study revealed that there is no relationship between managerial ownership and CEO duality, and return on assets (ROA), as a measurement of financial performance, with the probability of including income smoothing behavior that might be used by the management. Moreover, the current study found that the model of the relationship between the board’s characteristics and return on equity (ROE) is insignificant. The current study also revealed that there is no impact of both a company’s size and the industry type on its market share. Furthermore, only the industry type has an impact on the ROA.

The contribution of the current study to the literature lies in its investigation of the relationship between the board’s characteristics and a company’s financial performance represented by a company’s market share, ROA and ROE. In so doing, the present study has added to the literature through utilizing useful measurements. Therefore, this study globally contributes to the field of literature examining corporate governance and the performance of companies by investigating the relationship devoid of manipulation between a board’s characteristics and company’s market share.

Crucially, the present study is the first of its kind to introduce this new insight into the relationship between these variables. It therefore has introduced a new level of investigation as an extension to previous studies in this field and to the best of researcher’s knowledge no previous study in the literature review has been undertaken in both developed and developing countries to examine the performance of companies and the characteristics of a board from the new perspective of avoiding manipulation.

Finally, for future research in both developing and developed countries, consideration ought to be given to investigate the relationship between the variables of the board’s characteristics and financial performance, including market share as a measurement used to avoid manipulation to identify the findings from different levels and from different perspectives of development.

REFERENCES


