

AN OVERVIEW OF CORPORATE GOVERNANCE PRACTICES: AN INSTITUTIONAL PERSPECTIVE IN AN EMERGING MARKET

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Abstract

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This study provides a comprehensive view of the current practice of corporate governance (CG) in the emerging market, with a specific focus on Jordan. By using archival data, namely the academic literature, reports published by the main institutions, and financial reports published by listed companies, this study addresses the roles explored of main institutional forces, firms' characteristics, financial markets, and the Jordanian economic environment in reinforcing the current practices of CG in Jordan. Although Jordan aims for institutional development to reinforce practices toward consistency with international CG best practices, the results of this study show that there is a weak institutional environment, with a seeming lack of some external control instruments. The findings also indicate that unpredictable legal enforcement causes poor compliance by Jordanian companies. Therefore, current CG practices in Jordan are neither adequate nor comprehensive (Mansour et al., 2023). Therefore, the weakness of CG may lead to further financial crises at the company level in Jordan. This study represents the first attempt to explore whether institutional forces are essential to strengthen CG practices in developing nations, and the results of this article can serve as a prototype for other developing economies.

Keywords: Jordan, New Institutional Sociology, Corporate Governance

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1. INTRODUCTION

Corporate governance (CG) is a longstanding yet relevant issue in accounting fields and academic

writing due to many corporate collapses around the world, such as those during the Asian and Global Financial Crises. CG practice monitors management's effectiveness, protecting shareholders' rights and

mitigating noncompliance incidences by preventing egregious behavior. In this vein, leading international bodies such as the World Bank, the International Monetary Fund (IMF), the International Finance Corporation (IFC), and the Organization for Economic Cooperation and Development (OECD) strongly promote the development of guidelines, regulations, standards and codes of governance around the world. Epps and Cereola (2008) noted that the OECD described the CG good practice as having “implications for company behavior toward employees, shareholders, customers and banks” (p. 1136). The World Bank contends that governance aids nations in constructing efficient, capable, accountable and inclusive institutions. Those with healthy institutions progress by producing an environment which decreases poverty and provides valuable services (World Bank, 2023). In developing countries, compliance with good practices of CG is an effective tool when regulatory and legal environments are weak, with such environments typified by a predominantly high concentration of ownership.

In this context, firms that encourage good CG practices could protect their owners’ interests and improve their investors’ confidence (La Porta et al., 2000). Earlier researchers have recognized the features of the institutional framework in developing countries (Aguilera & Jackson, 2010; Siddiqui, 2010; Rashid, 2011; Iswaissi & Falahati, 2017). Davis (2005) argued that new institutional sociological theory offers a comprehensive understanding of the formal and informal factors, values, norms, and culture of the company in modern society. Likewise, agency theory points to a conflict of interest between management and shareholders due to the separation of ownership and control. To alleviate the firm’s agency cost, agency perspectives suggest firms should adopt internal and external CG mechanisms (Al-Najjar & Clark, 2017). In this article, the institutional theory is adopted as the framework for understanding the institutional environment’s weaknesses in the Jordanian corporate sector.

Jordan is characterized by poor CG practice, a weak institutional framework and highly concentrated ownership. In Jordan, financial scandals have occurred, including the 1989 bankruptcy of Petra Bank and the drop of Jordan’s dinar from USD3.35 to USD1.41 in the same year (Shbeilat & Abdel-Qader, 2018). Following this, Jordan has witnessed 44 bankruptcies of Jordanian companies. As a consequence, its economy faces many challenges: a budget deficit, high government debt, high unemployment and poverty, and waves of COVID-19 infections, leading to continued economic deterioration (World Bank, 2021), causing more substantial debate about CG in Jordan. This article offers new evidence on existing CG practices in Jordan’s institutional context, about which little is known.

The motivation for this research is to seek improvements in the legal, institutional, and regulatory environment to promote transparency and accountability in the less-researched Jordanian corporate sector. This is done by exploring the factors affecting improved good CG practices and, ultimately, increasing investor confidence in Jordan. This article explores the roles of main institutional forces, firms’ characteristics, financial

markets, and the Jordanian economic environment in shaping existing CG practices in Jordan. The research questions are:

RQ1: Are institutional regulatory bodies exercising sufficient pressure on companies so that they reliably follow corporate governance principles and regulations?

RQ2: Do Jordanian companies adhere to the authoritative guidelines of good corporate governance practice?

RQ3: What obstacles hinder the implementation of corporate governance good practices in the Jordanian corporate sector?

Archival data is used for this article: academic literature, reports published by the main institutions, and financial reports published by listed companies.

The remainder of this research is organized as follows. Section 2 reviews the literature. Section 3 describes the methodology. Section 4 presents the theoretical framework. Section 5 provides results and discusses the professions of accounting and auditing in Jordan. Section 6 concludes the study.

2. LITERATURE REVIEW

Corporate governance mechanisms have emerged among the most important issues to address in both developed and developing countries. Globally, corporate financial scandals, failures, and collapses have prompted concern in Jordan’s government which has considered various procedures to protect and augment the nation’s financial environment.

2.1. Jordanian corporate governance: An overview

2.1.1. Regulators and governance

Corporate governance practices are relatively new in Jordan. In 1978, the Amman Financial Market (AFM) was established to regulate companies. In the 1990s, due to international organizations’ increased interest in CG practices in Jordan (e.g., the OECD, IFC and World Bank), numerous CG reforms were initiated with their support. In 1997, the AFM was replaced by three official institutions, (i.e., the Jordan Securities Commission — JSC¹, the Amman Stock Exchange — ASE², and the Securities Depository Center — SDC³).

In the same year, Central Bank of Jordan (CBJ) Law No. 23 (CBJ, 1971) was an important landmark for the Jordanian capital market. Consequently, the number of firms listed on the ASE grew gradually from 1998, especially till 2011. Nevertheless, the Jordan stock market experienced major turmoil in 2000, with 44 bankruptcy cases during this period: 26 in the industrial sector, 15 in services, and three in finance (Zureigat et al., 2014). Some have attributed this to weak CG practices. As a result, international organizations proposed several improvements to governance practices. Consequently, CG has been increasingly debated in Jordan (Al-Msiedeen, 2019), with many CG codes issued. These comprise CG instructions for the shareholding of non-listed public shareholding, listed, and limited liability companies, as well as for private shareholding firms, banks and insurance companies.

The OECD’s CG principles emerged as the international benchmark for good CG practice,

¹ <https://jsc.gov.jo/Default/en>

² <https://www.ase.com.jo/en>

³ <https://www.sdc.com.jo/english/>

with widespread adoption. These principles comprise the foundations of an effective CG framework, the main ownership functions, shareholders' rights and equitable treatment, stakeholders' role in CG, the board's responsibilities, transparency, and disclosure. Jordan adopted a series of CG codes with these principles through three main steps, as explained below. Later updates required all Jordanian-listed companies to include a governance report in their annual reports. This code included definitions for independent directors, the number of board members, board independence, chief executive officer (CEO) duality, stakeholders' rights, disclosure, and transparency.

2.1.2. Jordanian codes of corporate governance

Organization for Economic Cooperation and Development principles have been essential in strengthening CG codes internationally, including in Jordan. They proscribe a constructive CG framework, major ownership functions, shareholders' rights and what constitutes their equitable treatment, stakeholders' role in CG, transparency, disclosure and board responsibilities. These principles indicate what constitutes good CG practice for regulators, policymakers, and market participants for supporting the regulatory, legal, and institutional framework underpinning CG. They give practical instructions for firms, stock exchanges, investors, and other parties involved in developing good CG practices. Thus, these principles have taken center stage in the construction of an environment of transparency, accountability, trust, and the requisite business integrity and financial stability which promote these elements, thereby supporting more robust economic growth.

In 2005, the JSC issued a non-mandatory code for ASE-listed companies. In 2009, a revised 'comply or explain' approach to the code was established. In 2017, Jordan's government issued new CG instructions for ASE-listed firms, applying international standards. Based on the Insurance Regulatory Law No. 33 of 1999 and its amendments, the Insurance Commission (IC) issued CG instructions specific to insurance companies in Jordan. For the banking sector, various steps were taken: the 2004 bank directors' CG handbook, the 2007 CG code for banks, and the 2016 amended CG bank instructions. These also followed the Basel Committee's guidance for banking supervision. These spoke to various aspects of CG, including the board of directors' responsibilities and experience, the board's independence, supervision mechanisms, and the bank's internal control system.

2.2. Mechanisms of corporate governance in Jordan

In Jordan, internal factors, such as its characteristically weak institutional forces, the Anglo-American model is not suitable. Similarly, to Asia countries, such as Japan, and many European countries, such as the Netherlands and Germany, economic activities in the Jordanian stock market are dependent on mutual or personal relations. The mechanisms of corporate control in Jordan are often insider-oriented (e.g., due to the ownership structure) (Alkurdi & Mardini, 2020). The main investors have a stake of significant ownership within Jordanian

firms and, in general, are board members. In other words, the ownership of a company's shares is highly concentrated in the hands of a small number of investors who have a pivotal role in disciplining the companies through close relationships. Therefore, the market is not a tool for firm control in the Jordanian corporate sector (Alshirah et al., 2022). It may thus be argued that Jordan has a high level of ownership concentration, a lack of takeover regulations and an inefficient market.

With 44 bankruptcy cases in Jordanian companies from 2000 to 2011 (Zureigat et al., 2014), Jordan is struggling toward comprehensive institutional development to strengthen CG practices consistent with international CG best practices. The establishment of the ASE, the JSC, the SDC, and the Jordanian Institute of Directors, formed a turning point for the Jordanian market. These reforms contributed to the development of a regulatory and legal environment for sustained economic growth.

2.2.1. Corporate ownership structure

The separation of ownership structure from management is rare. Unlike Anglo-American firms, ownership concentration in Jordan is intensely high and cross-shareholding is not very popular, which means that individual shareholdings are very large. Thus, joint stock firms in Jordan are heavily controlled by the dominant shareholders (founding sponsors/directors). In general, these are family members with positions on the board of directors. Therefore, the Jordanian corporate governance (JCG) model may be termed an "ownership-based model" (Al-Msiedeen & Al Sawalqa, 2021; Al-Begali & Phua, 2023). From a sample of 118 listed nonfinancial companies in Jordan, Kanakriyah (2021) indicated that the average proportion of shares owned by members of the board of directors is 71.8%. In a few companies, ownership is controlled by the government and foreign investors. Hence, most decision-making in a Jordanian company is done by a few managers who are representatives of the family owning the company. This makes it difficult for non-controlling shareholders to exercise their ownership rights, such as by removing poorly performing management or appointing managers in the first place.

2.2.2. Board of directors

Jordan's Companies Law No 22 of 1997 and its amendments provide guidelines about the appointment, roles, and responsibilities of members of the board. However, there is no clear guideline on board leadership structure and board independence. This law and its amendments function in opposition to the more recent 2017 CG instructions for shareholding listed companies. For instance, the Companies Law No 22 of 1997 requirement that all board members must be shareholders works against the concept of directors' independence. Section 133(C) of the Jordanian Companies Law No 22 of 1997 and its amendments states that the membership of any member of the board of directors of a firm listed on the ASE shall be forfeited if the number of shares owned by the member is less than the agreed limit. Therefore, the appointment of professional directors to boards is curtailed by this law. Moreover,

the requirement that board members be shareholders appears inconsistent with the concept of an independent director.

The Companies Law No 22 of 1997 and its amendments make no mention of the experience and qualifications of an independent director as directors are not considered to be independent. As well, there is no strict condition for appointing board members when a position becomes vacant; such a member is elected by the other board members. Given the status quo in Jordan, explained above, it is likely that the process of appointment is usually based on a close personal relationship with the other board members, large shareholders, and firm managers, rather than any experience and qualifications for the role. Al-Msiedeem et al.'s (2018) empirical research on board independence (as represented by external independent directors) reveals that, overall, board independence positively influences firm performance in Jordan. Altawalbeh (2020) points out that only 52% of nonfinancial firms listed on the ASE have at least one independent director. This supports the claim by the European Bank for Reconstructions and Development that few independent directors of the largest Jordanian-listed companies are disclosed (Cigna & Sigheartau, 2017). It follows that many Jordanian companies have not appointed any independent directors at all.

Similarly, to Anglo-American countries, boardrooms in Jordan are organized under a one-tier system, while firms in many European countries, such as Germany and the Netherlands, are organized as two tiers. Under the former, the CEO and board chairperson carry out their responsibilities and duties together (Maassen, 1999). In the two-tier system, the board's executive function is separate from its monitoring function (Maassen, 1999). In practice, Jordanian boardrooms are strongly controlled by owners who belong to one family. Therefore, family duality is prevalent: the father serves as board chairman and the son serves as CEO.

2.2.3. Management and chief executive officer

The term "CEO" is not commonly used in Jordan. The new code of CG directives for firms listed on the ASE and the Jordanian Companies Law No 22 of 1997 (and its amendments) provide some guidelines concerning the position of the director who is the CEO in fact (see Section 152(C) of the Companies Law No 22 of 1997 and its amendments). In most Jordanian firms, the CEO is the representative of family members or the majority of shareholders. More than half of Jordanian companies are owned and controlled by family members (Salameh et al., 2023), which can lead to a lack of focus on their expertise and qualifications in their appointment. Hence, this situation may lead to lower accountability of management to the board members.

As firms in Jordan operate under a one-tier board system, the non-executive and executive managers hold the positions of board chairman and CEO, respectively, and tend to be closely related, if not by blood. However, as noted by Abdullatif et al. (2019), the concept of CEO duality is currently very limited in the Jordanian corporate sector, especially in banking and insurance. Consequently, it seems that JCG needs many reforms, especially in terms of the value placed on an independent board member.

The present situation gives substantial power, authority, and decision-making to CEOs, therefore, mitigating the ability of the board to exercise governance (by monitoring) and leading to an agency cost by creating a conflict of interest between the board members and management.

Such a conflict of interest may diminish the board's independence and therefore create severe problems, as shown by Enron and other spectacular corporate collapses with the same cause. As noted by Cornett et al. (2007), "CEO/chair duality concentrates power with the CEO, potentially making disagreement on the part of outsiders costlier, which can exacerbate potential conflicts of interest" (p. 1775).

2.2.4. Shareholders rights

Generally speaking, the Jordanian Companies Law No 22 of 1997 and its amendments and the Jordanian Corporate Governance Code (JCGC) 2017 (JSC, 2017) provide several main rights to shareholders (e.g., rights of appointments to the board of directors, right of dividend, and preemptive rights to subscribe additional shares). Such rights can be exercised by shareholders through voting for directors and on other main issues in the shareholders' meeting. The Jordanian Companies Law No 22 of 1997 and its amendments provide many provisions for such rights. Based on equal treatment of shareholders, for instance, Section 98(D) requires that all shareholders of a firm have the right to access the shareholders register in the company regarding their ownership, for whatever reason. Further, Section 157(A) indicates that the chairperson and members of a public shareholding firm board shall be held responsible to the shareholders, firm, and others for every violation committed, by any or all of the members, of the regulations and laws in force, of the firm's memorandum of association, and for any error in the company's management. JCGC 2017, Section 13(5) proscribes the participation and voting in the general assembly meeting of a firm, whether in person or by proxy, with votes equal to the number of stocks owned by the shareholder of the firm and delegated stocks. To protect shareholders from dilution, Section 13(7) of JCGC 2017 states the right of preemptive to any new company issues prior to displaying them to other investors, unless the shareholders of the company waive this priority by a decision through an extraordinary general assembly of the firm (JSC, 2017).

Rashid (2011) confirms that "there is no legislative guideline for calling a 'meeting of shareholders' by shareholders" (p. 20) in many developed countries. However, in a less developed country like Jordan, shareholders holding not less than 10% of the shares of the company can request an extraordinary general assembly meeting, as mentioned in Section 13(10) of JCGC 2017. Section 13(11) of JCGC 2017 points out as well that shareholders holding not less than 20% of the shares of the company can request an extraordinary general assembly meeting to seek the dismissal of the chairperson or any member of the board of director, excluding members representing any public legal person and government shares. Further, only shareholders holding not less than 10% of the shares of the company can request an audit of the company's records and its activities.

In fact, many company shareholders are not aware of their main rights and rarely have the motivation to exercise these rights. It may also be argued that many shareholders are not given adequate opportunities to participate in decisions related to the company (Pearce, 2015). They may not have enough skills to exert pressure on the board of directors at the general assembly meeting (Baldacchino et al., 2020). Supporting this argument, Shen et al. (2015) claim that many shareholders are interested only in increasing profits and maximizing their wealth.

2.2.5. Environmental disclosure

There are quite different requirements for disclosure in developing and developed markets. Company information is conveyed to relevant parties in a variety of ways: letters to shareholders, websites, newspapers, and published interviews. One main mechanism is companies' annual reports (Luo et al., 2018). The vast majority of investors count on a firm's annual reports for their investment decision-making. They provide a brief overview of companies and are more credible and timely sources than media reports. In the Jordanian market, there are three kinds of disclosure processes: voluntary disclosures, mandatory disclosures, and disclosures of the corporates' social responsibility.

In 1976, AFM ("Amman Stock Exchange", n.d.) law addressed the requirements of disclosure for Jordanian firms in general terms, as at the time, there was no extant information on any specific disclosure requirements for annual reports for companies listed on the ASE. In addition, there were no requirements in terms of the period and presentation of published financial information in Jordan (Khateeb, 2022; Alawneh & Alawneh, 2022; Saaydah, 2022). There is also an absence of enforcement tools for companies' compliance with the disclosure requirements, such as they were. Therefore, the quality of the disclosure environment for Jordanian firms has been classified as unsatisfactory. In sum, this is due to what has been described as an inadequate set of standards for auditing and accounting, without guidelines or legal requirements for Jordanian disclosure practices.

Through the Temporary Securities Law No. 23 of 1997, Jordan set out the Directives of Disclosure and Accounting and Auditing Standards, in which certain requirements for annual reports were listed, encouraging investors' trust and company accountability and transparency through compliance with international standards. This law was replaced by the Securities Law of 2002, delegating the ASE, JSC, and SDC greater authority to urge companies to conform to disclosure requirements. This reform meant that all listed companies had to provide their annual reports to the JSC within a specific time after the fiscal year's end.

Overall, voluntary, mandatory, and corporate social responsibility (CSR) disclosures gradually improved in Jordan due to successive reforms since 1997. Among these was the Environmental Protection Law No. 52 of 2006, which it compulsory

for a firm to assess its influence on the environment and provide this in the annual report. As expected, compliance with mandatory disclosure exceeds that of the other two kinds of disclosure. Haddad et al. (2017) argue that cultural and social factors heavily influence voluntary disclosure. In developing countries, there is a tendency for societies to be "more secretive, conservative and based on statutory control, with little professional judgment compared to their counterparts of developed countries" (Haddad et al., 2009, p. 289). This thus accounts for little voluntary disclosure in these environments. In Jordan, there is insufficient information on social and environmental disclosure required by laws, regulations, and instructions, which is why relatively few CSR disclosures are made. For example, the 2017 CG instructions for shareholding listed firms addressed the idea of CSR in general terms, merely requiring each company to develop its policy about social responsibility for the local community and the environment, without establishing any particular content or type of disclosure about CSR activities. For this reason, Jordanian companies' commitment to environmental protection remains weak.

In sum, despite consistent improvement in Jordan, not all companies comply with regulations about disclosure. Institutional regulatory bodies still fail to mount pressure on corporates to comply with the above-mentioned principles, regulations, laws, and standards. In addition, some loopholes exist in these laws and regulations and there are insufficient qualified auditors and accountants to develop an effective basis for compliance, especially given the concentration of firm ownership.

2.3. The assessment of the model of Jordanian corporate governance

Using a desk-based appraisal of relevant documents, the current state of Jordanian firms' compliance with CG practices is measured. Gaps are identified between the nation's laws and regulations for CG compared with international CG principles and implementation practices. This assessment offers a comparative analysis of the quality and effectiveness of the country's legislation for CG, including enforcement mechanisms.

In Jordan, Shanikat and Abbadi (2011) and Cigna and Sigheartau (2017), have conducted such an assessment, focusing on Jordanian firms' compliance with CG principles. Shanikat and Abbadi (2011) approach this using the relevant law and what happens in practice (see Table 1).

Cigna and Sigheartau (2017) have also identified Jordanian banks' CG strengths and weaknesses, investigating five areas: rights of stakeholders, rights of shareholders, board structure functioning, and institutions, internal control, and transparency and disclosure. A five-level rating with the highest-level conflating strong and very strong into a single level, and the lowest as very weak (further details are presented in Table 2).

Table 1. The assessment of the Jordanian corporate governance model

| <i>Principles</i> | <i>Assessment base</i> | | <i>Remarks</i> |
|---|------------------------|---------------------|---|
| | <i>In law</i> | <i>In practice</i> | |
| The rights of shareholders | Widely covered | Widely practised | Shareholders participate in most important decisions except main asset sales. Shareholders' AGM rights are also mentioned, but there are no standard proxy forms and no provisions for postal voting. |
| The equitable treatment of shareholders | Partially covered | Partially practised | The controller sometimes acts on shareholders' complaints, but there is no formal complaint-resolution mechanism. There are solid regulations prohibiting insider trading. Related-party transaction rules are not clear. |
| The role of stakeholders in CG | Covered | Practised | Stakeholder rights are respected. Stakeholders have a number of legal Protections, which are widely covered in the Companies Law. Companies typically adopt performance enhancement measures, such as employee savings funds. Employees sometimes share ownership in some companies' issues. |
| The disclosure and transparency | Covered | Practised | Annual and semi-annual reports are provided, but only the annual report is required to be audited externally. Monitoring is limited only to quantity rather than quality of disclosures. There are no comprehensive and mandatory rules for corporate governance disclosure. Jordan has fully adopted the IFRS and ISA standards for accounting and audits. |
| The responsibility of the board | Covered partially | Practised | The board is liable for ensuring compliance with the law. In practice, there is no difference between the management and the board; generally, the chairman and CEO are the same person. Stakeholders' duties are not clear. The law and regulations determine specific standards related to functions that the board should fulfil. By the law, directors have a right to access all relevant information. |

Note: IFRS — International Financial Reporting Standards, ISA — International Standards on Auditing.
Source: Shanikat and Abbadi (2011, p. 100).

Kamar and Selim (2020) issued a report under the auspices of the European Bank for Reconstruction and Development, evaluating that, overall, firms' board structure and functioning are weak, though designed as internal control systems. This report indicated that since 2007, reporting standards and financial auditing have weakened, with few improvements in firms' ethics in Jordan and that Jordan's regulations and governance are seen as impediments to attracting investment. It is claimed that policy instability and inefficient government bureaucracy are key problematic factors for a business

operating in Jordan. For example, the short lifespan of Jordanian parliaments has hindered the sustainability of effective government initiatives. Supporting these claims, incidents of uncertainties faced by the private sector are symptomatic of weak CG processes relevant to the way strategies, regulations, and policies are designed, coordinated, conducted, and updated. The conclusion is that foreign and domestic investors need a level of certainty, transparency, and accountability about government policy that might influence their decisions to commence and operate businesses.

Table 2. An overall assessment of the Jordanian corporate governance model

| <i>Key groups</i> | <i>Rating</i> |
|---|-------------------|
| The structure of the board and functioning, independent directors, board effectiveness, internal control, functioning and independence of the audit committee, control over related party transactions and conflict of interest, general shareholders' meeting, minority shareholders' protection and access to information, registration of shareholdings, and CG code | Weak |
| Board composition, non-financial information disclosure, and quality of internal and external audit | Fair/Weak |
| Board responsibilities, transparency and disclosure, disclosure of the external audit, reporting to the market and shareholders, quality of the internal control framework, and rights of shareholders | Fair |
| Protection against insider trading and self-dealing | Moderately strong |
| Financial information disclosure | Strong |
| Gender diversity at the board | Very weak |

Source: Al-Msiedeem (2019).

2.4. The Jordanian institutional forces

In this study, Jordan's official institutional capacity for strengthening CG best practices by firms is evaluated. Key institutional forces that can exert pressure on firms to this end are explained in the following paragraphs, after a summarized introduction.

2.4.1. Jordan's economy — A brief sketch

Jordan's economy is among the smallest in the Middle East. It exports potash and phosphate but has insufficient water, oil, and other natural resources. Therefore, Jordan's government relies on external aid. Jordan faces a budget deficit and high

unemployment, poverty, and government debt. After the COVID-19 shock, Jordan has started its recovery. Gross domestic product (GDP) grew from 1.6% in 2020 to 2.2% in 2021. In Q1 2022, growth rebounded to 2.5 %, supported by the reopening of the economy and the recovery of some sectors, notably tourism. However, higher commodity prices around the world led to an acceleration in headline inflation and labor market conditions remain challenging. For instance, unemployment in Q2 2022 is 22.6%, which is still above pre-pandemic levels (with women at 29.4% and youth under 25 years old at 46.1%). In addition, labor force participation remains low (33.5%) in Q2 2022, especially for women (14.2%), one of the lowest rates in the world. It is worth noting that the unfavorable global

context poses important risks, despite robust growth in exports and a solid rebound in travel receipts. At the end of 2021, total debt reached 113.7% in Jordan. Further, Jordan faces climate-related hazards, including precipitation decreases, temperature increases, and more incidents of drought. This weak growth can be traced to multiple external shocks, including regional conflicts and the influx of almost 1.3 million Syrian refugees (representing nearly 13% of the total Jordanian population) (World Bank, 2023).

In fact, economic transformation in Jordan remains contingent on identifying opportunities to conduct the reforms needed to encourage private sector-led growth and job creation. Among these is the government's program of economic priorities 2021-2023, which prioritizes key business environment reforms to support public-private partnerships and finance development of the investment environment and job creation. To support these reforms, Jordan initiated a new vision for economic modernization in 2022, targeting growth and opportunities in the following ten years, together with a plan for public sector modernization (World Bank, 2023).

Some public firm shares were earlier traded irregularly, through private brokers who bought, sold and tracked trading in the absence of an organized market for securities trading in Jordan. This system was faulty, inefficient, and laborious and the need for a well-organized market became recognized as crucial. The capital market plays a central role in the economic growth of any country.

According to Al-Khouri and Al-Ghazawi (2008), the volume of trading was very limited. In 1930 and 1931, Jordanian Tobacco and Cigarettes and the Arab Bank were established, respectively. In 1951, Jordanian Cement Factories were established in the south. In the early 1960s, bonds for some Jordanian firms were issued and traded (Al-Khouri & Al-Ghazawi, 2008).

As the number of public firms rose, facilitated trading, and the protection of investors' interests became more important, prompting the increased demand for a developed Jordanian securities market. This led to the government's institution of the AFM in 1976, Jordan's first securities market, in cooperation with the IFC, which began operations in 1978 as the only stock exchange in Jordan.

To develop its securities market to international standards, the Jordanian government decided that further reforms of the Jordanian market were needed. In 1997, the Temporary Securities Law was issued, a watershed moment for Jordan's capital market. This law's purpose was to restructure and regulate this capital market by separating legislative and supervisory roles from the executive role of the Jordanian securities market. In this way, the AFM was replaced by the ASE, JSC, and SDC. As mentioned earlier, the JSC was allocated legislative and supervisory functions, while the ASE and the SDC took over executive functions.

2.4.2. Amman Stock Exchange

The ASE, established by the Temporary Securities Law No. 23 of 1997, is considered a non-profit organization with administrative and financial

independence. The main reason behind setting up the ASE was likely Jordan's privatization program. On March 11, 1999, the ASE embarked on its operations with 151 listed companies and market capitalization reached nearly USD5,844.2 million by the end of 1999. In 2017, it was registered as a public shareholding firm, completely owned by the Jordanian government with the name "The Amman Stock Exchange Company" (ASE Company). The ASE Company is the factual and legal successor to the ASE and is managed by a board of seven directors appointed by the Council of Ministers, all of whom are non-executive and non-independent. This board established four committees, namely, the Nomination and Remuneration Committee, Governance Committee, Auditing Committee, and Risk Management Committee. The Governance Committee is responsible for preparing and submitting the governance report to the board to ensure ASE compliance with the CG code issued by the Companies Control Department (CCD) and the company's disclosure instructions issued by the JSC.

As indicated above, it may be argued that a conflict exists between the international CG code and the CG code issued by the CCD, with the ASE Company conforming with the latter. In 2021, the ASE performed a set of producers related to environmental, social, and governance. As of 2020, all companies listed on the ASE must issue a sustainability report regarding the CG, and their social and environmental responsibilities. Interestingly, the ASE launched an initiative related to the disclosure of information related to climate change, in cooperation with the IFC.

2.4.3. Jordan Securities Commission

The JSC is an official independent government body reporting directly to the prime minister, with supervisory and legislative functions (Alhusban et al., 2020). Its purpose is to administer and develop Jordan's capital market to ensure transparency and efficiency and protect it from any likely threats. The JSC is subject to the supervision of external and internal audits and the Jordan's Audit Bureau. In addition, it complies with the standards of the International Organization of Securities Commissions (IOSCO). The Securities Law of 2002 further strengthened Temporary Securities Law No. 23 of 1997, giving the JSC the powers to control and organize the issuance of securities, registration, matters concerning licensing and disclosure, and instructions to improve CG practice. In 2017, the JSC revised the JCGC of 2009 by requiring all firms listed on the ASE to include a governance report in their annual reports.

Unfortunately, much less attention has been given to the disclosure of information related to climate change in these JCGC 2017 revisions, although the current challenges facing Jordan are climate-related hazards. There is no mandatory formal legislation or regulations for Jordanian companies to disclose information related to climate change in their annual reports.

2.4.4. Securities Depository Centre

In 1999, the SDC was instituted by the Temporary Securities Law No. 23 of 1997 as a non-profit entity with administrative, financial, and legal autonomy. The SDC's purposes are to protect the securities ownership and process registration ownership of securities among brokers. It seeks to reinforce the confidence of investors, assisting them in obtaining information concerning their investments easily and quickly. Therefore, it plays a vital role in limiting the dangers in the settlements of trading transactions. According to Section 77 of the Securities Law of 2002, the SDC in Jordan is the only entity in the market to: register, safely keep, and transfer securities ownership; deposit the ownership of securities; clear and settle the ownership of securities. The SDC registers and deposits stocks issued by public shareholding companies and registers treasury bonds and bills, and individual savings bonds issued by the Jordanian government. Thus, the membership in SDC is mandatory for public shareholding firms (i.e., the insurance, services, industrial, and banking sectors), custodians, brokers, and any other entities as determined by the JSC's Board of Commissioners.

2.4.5. Insurance Commission

The Insurance Regulatory Act No. 33 of 1999 set up the IC as a government entity with administrative and financial independence. The IC aims to regulate, monitor, and enhance the insurance sector and, in doing so, contribute to protecting the Jordanian economy. It moved slowly in communicating its instructions. In 2003, the IC provided Instructions on Accounting Policies to be Considered by Insurance Firms, together with a group of forms required to prepare financial reports for a standardized style for the production of such information (Al-Tal, 2014). The IC issued Corporate Governance Instructions in 2006, in accordance with the provisions of the Insurance Regulatory Act No. 33 of 1999, Section 45(B), applying specifically to the insurance companies' sector, specifying the responsibilities, duties, executive management, internal auditors, the audit committee, and roles of directors. The IC is responsible for following up on insurance companies' annual reports, which must be audited by the company's external auditor and displayed within specified times.

2.4.6. Companies Control Department

The Companies Law No 22 of 1997 set the framework for the establishment of the CCD in 2003 as an independent organization. The CCD's main purpose is to register various types of firms in the Jordanian market and attempt to influence them by improving the procedures for such registration, thereby reinforcing the internal and external mechanisms for control over firms in a general way. It does this by monitoring public shareholding companies' disclosures. The Companies Law No 22 of 1997 grants the CCD authority to monitor the remuneration and ownership of the board of directors by checking public shareholding companies' reports. In 2012, the CCD issued the code of the CG, which is specifically applicable to limited liability

firms, public shareholding corporates not listed on the ASE, the private corporate sector, private shareholding firms, and limited liability firms that are not for profit. As indicated above, this code contains five main sections related to the board of directors (management committee roles and responsibilities), the rights of shareholders and stakeholders, disclosure, transparency, and the control environment. However, as all members of the board are required to be shareholders in the same company by the Companies Law No 22 of 1997 this appears to be substantially inconsistent and in conflict with CG's best practice in terms of the independence of board directors.

2.4.7. Central Bank of Jordan

The CBJ was established by virtue of the CBJ Law of 1959 and started its operations in 1964. The CBJ is a public entity with legal, administrative, and financial autonomy. It seeks to maintain monetary and financial stability, thereby eventually contributing to the creation of economic growth in Jordan. The CBJ enacted the JCGC for Banks in 2007, which was based on the principles of the OECD and the guidelines enacted by the Basel Committee on Banking Supervision, to enhance CG best practices. For this, the CBJ reiterated four key principles found in those other documents (see the JCGC for banks of 2007). This JCGC for banks was revised in 2016 to include the responsibilities of the board, board composition, stakeholders' interests, conflicts of interest, and disclosure and transparency.

2.5. The legal environment in Jordan

The legal framework relating to the Jordanian company sector consists of specific laws and numerous legislative mechanisms, such as orders, regulations, rules, instructions, notifications, and circulars, issued by formal bodies like the JSC, ASE, CCD, and other related governmental and private agencies, including the Jordan Chamber of Industry. The legal environment plays a key role in formulating and enforcing the best practices of CG principles within an organization's structure and affecting its behavior (DiMaggio & Powell, 1991).

Overall, in most developing countries, including Jordan, the institutional setting and the legal environment are qualitatively weak (La Porta et al., 2000). More recently, Haddad et al. (2017) note scant legal requirements for disclosure in Jordan. Hence, with such a weak legal base, there is limited scope for enforcement of such disclosure in the Jordanian market. Such weak legal enforcement leads to low compliance by companies, and indeed noncompliance with the Securities Law.

2.6. The professions of accounting and auditing in Jordan

The accounting profession is generally thought to be among the most significant ones affecting the national economy, with its roots in the Jordanian legal system, a hybrid of civil law and Islamic legal principles (Haddad et al., 2017). Historically, commerce was managed by the Ottoman Commercial Code enacted between 1849 and 1850 in what was then known as Transjordan. This was replaced after

Jordan's independence in 1946. In 1964, Jordan issued its first company law, which was used in both the East and West Banks of Jordan. The accounting profession in Jordan has been strictly monitored by the Accounting Professional Council (Al-Akra et al., 2009). In 1985, an Audit Bureau was set up, a defining moment in managing accounting practice in Jordan (Solas, 1994). Through the Act of 1987, the Jordanian Association of Certified Public Accountants (JACPA) was founded (Atmeh, 2016). In 1992, it joined the International Federation of Accountants. Until 1997, no independent formal or legal entity was involved with developing accounting and auditing standards in the country (Nassar et al., 2013). Instead, the Ministry of Industry and Trade supervised these professions, with JACPA having a limited role (Al-Akra et al., 2010). Due to the Companies Law and the Securities Law, in 1997 and 2002, respectively, all shareholding firms in Jordan needed to adopt the full versions of the International Accounting Standards (IAS) and IFRS (Al-Akra et al., 2009). In 2003, a new law was passed to develop the professions of accounting and auditing and guarantee the successful application of IAS and IFRS in Jordanian companies. In 2004, the High Council for Accounting and Auditing was established by the government. It promoted JACPA, by this stage attached to the Public Auditing Profession Board. In this way, JACPA obtained more authority, including the responsibility to formulate by-laws (Haddad et al., 2017). However, much less attention has been given to auditor independence and any relevant code of ethics. This proved to have severe ramifications in that there is an obvious absence of enforcement tools.

While the auditing profession had purportedly been managed by Law No. 10 of 1961 (Haddad et al., 2017), enforcement was lax. In 1985, Auditing Profession Practice Law No. 32 came into being, one important step in developing the profession and its later support of JACPA, established as mentioned above, through JACPA's Act of 1987. The Auditing Profession Practice Law No. 32 also assisted in later setting up the High Council for Accounting and Auditing by making membership in JACPA obligatory for auditors; thus, the Act was designed to organize the auditing profession, to some extent, by identifying who worked as auditors in Jordan.

3. RESEARCH METHODOLOGY

The main objective of this research is to provide an overview of the current practices of CG and highlight the roles of main institutional forces in strengthening the existing CG practices in emerging markets by considering Jordan as a case study based on the literature in this area. Following the previous studies, such as Peticrew and Roberts (2006), this study can be described as a review paper. To do this end, archival data is used for this study (e.g., academic literature, reports published by the main institutions, financial reports published by listed companies and revisions of relevant legislations and laws). Accordingly, the main issue in this research will be studied along with a discussion on the main institutional forces that reinforce the existing CG practices in Jordan. Therefore, this will include Jordanian codes of CG, company law,

the web pages of the main institutions and legal legislation environment in order to bring accountability to the Jordanian corporate sector.

4. THEORETICAL FRAMEWORK

In order to explain CG and its issues, researchers have extensively depended on resource dependence theory, stewardship theory, agency theory, transaction cost theory, and institutional theory (Steinfeld, 2023; Marashdeh et al., 2021; Löhde et al., 2021; Jhunjhunwala, 2023). To understand CG and its institutional changes in Jordan, institutional theory is adopted as an explanatory device. Institutional theory has been described by North (2005) as a set of formal and informal rules, standards, values, norms, and behaviors that influence business activity. As noted by del Carmen Briano-Turrent and Rodríguez-Ariza (2016), CG practice may be notably affected by institutional forces (isomorphic pressures) (e.g., the institutional, regulatory, and legal environment, cultural aspects, financial markets, and the economic environment) which constitute the institutional framework (Scott, 2005). Hence, Jordanian companies have to take these pressures into account. This theory is reflected through many approaches, and researchers focus on different factors and changes in an organization (DiMaggio & Powell, 1991). Among these factors are regulatory, technological and political complexities (Greenwood & Hinings 1996). Thus, companies have to embrace these changes to survive.

Institutional theory can be classified as either "old" or "new" (Aksom et al., 2020; Burch & Crowson, 2020; DiMaggio & Powell, 1991; Greenwood & Hinings, 1996). Institutionalism's original focus was on coalitions, competing values, power, influence, and informational structures, whereas the new version concentrates on the legitimacy process, with the assumption that the key institutional goal is survival (Fogarty, 1996; Oliver, 1997). This research is underpinned by the new version, also termed new institutional sociology (NIS) (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Scott, 2005). In the words of Meyer and Rowan (1977), "institutional rules function as myths which organizations incorporate, gaining legitimacy, resources, stability, and enhanced survival prospects" (p. 340).

As argued by Fogarty (1996), organizational survival depends on its congruence with the prevailing principles or values for appropriate behavior. Organizations adopt such norms and behavior to legitimize their existence, ending to institutional pressures and the market; influenced by legitimization, corporations will adopt a similar structure, a process known as "institutional isomorphism" (Meyer & Rowan, 1977; DiMaggio & Powell, 1991). DiMaggio and Powell (1983) contended that such institutional isomorphic modification takes place in three ways (coercively, mimetically, and normatively). Coercive isomorphism stems from political influence in which formal and/or informal pressures are placed on some organizations through other organizations. DiMaggio and Powell (1983) indicated that in some cases, "organizational change is a direct response to government mandate: manufacturers adopt new pollution control technologies to conform to environmental regulations; non-profits maintain accounts, and hire accountants, in order to meet tax

law requirements; and organizations employ affirmative-action officers to fend off allegations of discrimination” (p. 150). Fogarty (1996) pointed out that the state, through delegation or its own action, becomes dominant in the coercion of companies through its control over resources or its definitions of the public interest.

Mimetic isomorphism stems from uncertainty in organizations (DiMaggio & Powell, 1983). Selznick (1996) claimed that organizations are sensitive to the changes occurring around them. They thus start to imitate such changes in other organizations in the same field that are perceived as more legitimate and successful (DiMaggio & Powell, 1983). Furthermore, uncertainty issues in organizations are a powerful pushing force that makes them attempt to respond to environmental changes to solve a problem. It may be argued that the process of imitation may encourage organizational sustainability and legitimacy.

Finally, normative isomorphism results from the pressure of professionalism. As DiMaggio and Powell (1983) claimed, “professional power is as much assigned by the state as it is created by the activities of the professions” (p. 153). Professionals are believed to hold particular moral values which they disseminate across organizations by adhering to a relevant code of ethics (Fogarty & Rogers, 2005). This supports the prevailing belief that professional bodies require their members to uphold certain values in their work (Abdullah et al., 2018). Therefore, achieving institutional isomorphism in these ways supports legitimacy on the one hand and, on the other, empowers organizations to continue their activities.

Researchers have extensively relied on NIS perspectives in explaining CG and its issues. NIS is considered relevant for analyzing organizations faced with uncertainties. Accordingly, they compete for institutional and political legitimacy and market position (Tsamenyi et al., 2006). Interestingly, international donor agencies have shown increased interest in CG in Jordan (e.g., the OECD, IFC and World Bank). Consequently, various CG reforms have become increasingly significant in Jordan’s struggle for reinforced and sustained economic development. Part of these reforms involve the capacity building of the institutional environment and strengthening legitimacy.

5. RESULTS AND DISCUSSION

This research offers some insight into current CG practices in Jordan, a far less advanced institutional context than those in which the ISA and IFRS were initially devised. This evaluation of Jordan’s institutional capability to reinforce CG practices points to important shortcomings in the relevant institutions and the major challenges and issues concerning CG at the company level. The theoretical foundation for this study is new institutional sociology. Jordan is struggling toward comprehensive institutional development to strengthen good CG practices in line with international CG best practices for listed companies.

Since the early 1997s, many reforms have been undertaken. The initial work of the AFM was developed by its replacement with three institutions (the ASE, JSC, and SDC) and the Companies Law No 22 of 1997 and the Securities Law of 2002 were

enacted. This meant a revision of Jordan’s capital market regulations and laws, separation of the legislative and supervisory roles from the executive role in the Jordanian securities market, adoption of ISA and IFRS, and a revision of the JCGC for listed firms. Overall, this developing institutional environment promotes CG in Jordan. However, further reforms would benefit the efforts made to date.

In general, the current institutional regulatory regime fails to pressure companies to abide by the laws, regulations, principles, and standards outlined above, which leads to substantial noncompliance. As a result, corporations in Jordan, in many cases, do not follow the guidelines associated with CG best practices. It can be said that the executives and directors in Jordanian boardrooms who belong to one family have a tendency to behave opportunistically, for their own interests, at the expense of those of their companies. It is argued that the predominance of family-owned Jordanian firms has engendered serious challenges to effective governance in Jordan at the company level. One plausible explanation is that families hinder governmental institutions’ actions in their attempts to enforce the relevant laws and regulations. Families’ political relationships typically directly oppose the state’s legal authority (Uddin & Choudhury, 2008). Yet another explanation by Jalilian et al. (2007) is that building an effective and efficient regulatory environment in developing countries does not merely involve technical aspects regarding the most appropriate regulatory tools; it relevant to is the quality of regulatory institutions and their capability to strengthen CG best practice.

Arguably, the various regulatory bodies in Jordan also suffer from a lack of professional ethics and a shortage of talented and skilled managers. This is an institutional problem. Therefore, it can be argued that although Jordan has apparently adopted CG best practices consistent with the international CG best practice for institutional legitimacy, in fact, there are indications of weak CG processes concerning the design of relevant strategies, regulations and policies, and how they are coordinated, operationalized and updated. A number of initiatives to simplify the regulatory framework is underway or planned; however, progress has been very limited so far. Policy instability and inefficient government bureaucracy are key problematic factors for a business operating in Jordan. For the past several years, there has been a decrease in market capitalization and the number of listed firms in Jordan. In the last five years in Jordan, it has become less easy for firms to obtain information about changes in government policies, legislation, and regulations influencing their activities. Consequently, regulatory quality in Jordan has slightly worsened over the past decade.

In brief, additional key reforms are needed for some aspects of CG in Jordan. Rigorously devised regulation is needed to deal with opportunistic people who benefit in a context where the market plays a limited role. Further, educating investors may assist in ensuring that managers work in the company’s best interests, ultimately making the company accountable. The features of CG practices within a given country are heavily affected by the “forces aimed at increasing their efficiency,

and legitimization effects due to path dependence” (Zattoni & Cuomo, 2008, p. 1). Therefore, the reforms must be intelligently designed to boost the governance environment in Jordan, keep up with its changes and complexity, and finally, promote an environment of accountability among Jordanian firms.

6. CONCLUSION

The current study aims to provide a comprehensive view of the current practice of CG in the emerging market, with a specific focus on Jordan. It also shows a comprehensive insight into whether the main institutional forces are able to reinforce the current practices of CG in the Jordanian corporate sector. The main results of the study indicate that the institutional settings are all very weak. This leads to the Jordanian corporate sector failing to follow the good practices of CG in many instances.

The results of this study have valuable implications for regulators, authorities, policymakers, practitioners, and managers of companies in Jordan. Firstly, policymakers could benefit from the study's results by selecting which legislative aspects need development and formulating clear regulations and rules concerning the CG, and eventually development environment of CG in Jordan on one hand, and, on the other, promote the roles formal institutional forces in strengthening the existing CG practices in Jordan. This leads to an increase in the level of compliance among Jordanian companies. Indeed, the importance of this study for relevant parties is that it has critical implications for the present reform movement of CG practices in Jordan. Secondly, the research's results call for official or

legal bodies to pay attention to encourage the roles of main institutions in Jordan. Finally, to improve the current structure of CG in Jordan, this study calls on the related parties to benefit from international standards of CG may assist in correcting and formulating the governance system in any country around the world by adopting some beneficial features of CG which exist in developed countries. Therefore, this research makes some recommendations depending on the best practices of CG around the world, in keeping with the current system of CG in Jordan. This study makes a critical contribution to the governance literature and alleviates the scarcity of studies on CG in developing markets.

Just like any other study, this study also suffers from some limitations, which opens the way for possibly fruitful future research opportunities. Firstly, although the findings of this study are specific to the Jordanian scenario, the similarity of the Jordanian governance model with those of other emerging markets points out that an extended investigation of the subject in the Middle Eastern countries is recommended. For example, future research can investigate CG across Arab countries with similarly shared institutional settings, cultures, economies and financial infrastructures. Secondly, this study can be described as a review paper. However, it is suggested that future research in this area may explore the other aspects of CG at the corporate level by adopting different methodological perspectives. Finally, the institutional factors influencing the good practice of CG in Jordan are relatively new, and therefore, there is a scarcity of studies on this topic in emerging economies like Jordan.

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