

**Corporate Governance, Firm Performance and Dividend  
Policy: Evidence from Jordanian and Australian Listed  
Firms**

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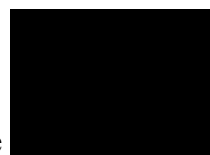
## **Declaration**

I certify that the substance of this thesis is my own and original work that has not already been submitted for any degree and is not currently being submitted for any other degree or qualification. I certify that any help received in preparing this thesis and all sources used have been acknowledged in this thesis.

Ali Mohamed A Hamid

8 December 2014

Signature



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## **Abstract**

Following high profile corporate scandals and collapses in recent years, many countries have adopted corporate governance frameworks. Good governance practices play an effective role in providing transparency and accountability of company management, helping to mitigate conflicts of interest, building investor confidence and attracting investments.

This purpose of this study is to examine the relationship between corporate governance mechanisms and firm performance as well as corporate governance mechanisms and dividend policy in Jordanian and Australian listed non-finance firms. Jordan is in the Middle Eastern region, and has a pioneer, emerging market characterized by a high block-holding ownership. Australia is a developed market with strong legal protection and investors' rights. Both countries have experienced little effect from the Global Financial Crisis (GFC) and, therefore, potentially provide good comparative cases from which to derives insight into the operations of corporations and how best to manage them to achieve economic development, particularly in emerging markets.

The underpinning theories to support the development of the conceptual framework used in this study are Agency and Signalling Theories. Empirical studies in the literature on the relationship between corporate governance mechanisms and firm performance, and dividend policy show mixed and inclusive results. This study takes into account differences between the institutional settings in Australia and Jordan, and contributes to the body of knowledge in the area of corporate governance in emerging and developed markets. The findings of the study have potential implications for policy makers, investors and other stakeholders in Jordan in terms of providing information for the establishing of proper investors protection through the formulation of a sound corporate governance policy for the Jordanian market.

This study, using a sample of 70 Jordanian and 206 Australian non-finance listed firms for the period 2005–2011, examines two related issues; first, the relationship between corporate governance mechanisms and firm performance; second, the relationship between corporate governance mechanisms and dividend policy.

To examine the relationship between corporate governance variables (measured as board structure, sub-committees of board, ownership structure, board salary and Big-4) and firm performance (measured as ROA, ROIC and log Tobin's Q) in Jordanian and Australian listed non-finance firms, this study employs three regression techniques: a pooled OLS

regression to test the hypotheses and then panel data models (i.e. fixed effects model) to control for unobserved heterogeneity. Finally, to control for endogeneity/causality issues, this study adopts Generalized Method of Moments (GMM) to test the hypotheses. In the Jordanian context, the findings indicate that certain corporate governance mechanisms (such as board independence, remuneration committee independence, managerial and foreign ownership and board salary) have significant positive effects on performance. However, government ownership has a significant negative effect on firm performance. In the Australian context, the results show that governance mechanisms (such as board size, board independence, board meeting, remuneration committee independence, managerial ownership, institutional ownership, foreign ownership, board salary and Big-4) have significant positive effects on performance. These findings have implications for Agency Theory.

To investigate the association between corporate governance mechanisms (measured as board structure, ownership structure and Big-4) and dividend policy (measured as POUT and DY) in both markets, this study uses two regression techniques: a pooled OLS regression and panel data models (i.e. random effects or fixed effects model) to test the hypotheses. In the Jordanian context, the findings show that a few governance mechanisms (such as board size, CEO duality and Big-4) have significant positive relationships with dividend policy. In the Australian context, the results reveal that governance mechanisms (such as board size, board independence, institutional ownership and Big-4) have a significant positive effect on dividend policy. These results support arguments that corporate governance and dividend policy have a complementary role in both markets as proposed by Signalling Theory.

Overall, although there are significant differences between the institutional settings in Australia and Jordan (such as economic conditions, legal frameworks, investors' rights, ownership structure, religion and culture), this research finds some similarities in the countries' governance mechanisms, for firm performance and dividend policy, as well obvious differences. The research results also generally support Agency and Signalling Theories, and are consistent with the findings of prior empirical studies. Thus, the empirical findings of this study potentially provides a useful lessons that policy makers, investors, institutions, managers and other stakeholders in both markets can use to develop and improve their respective corporate governance system.

## Table of Contents

Declaration.....	ii
Acknowledgements .....	iii
Abstract.....	iv
Table of Contents .....	vi
List of Tables .....	xi
List of Figures .....	xiv
Acronyms.....	xv
<b>Chapter 1: Introduction .....</b>	<b>1</b>
1.1. Introduction and Overview .....	1
1.2. Problem Statement .....	6
1.3. Significance and Expected Contributions of the Study .....	6
1.4. Objectives of the Study.....	9
1.5. Conceptual Framework and Methodology .....	9
1.6. Thesis Structure.....	13
<b>Chapter 2: Institutional Context in Jordan and Australia .....</b>	<b>14</b>
2.1. Introduction .....	14
2.2. Institutional Context in Jordan .....	14
2.2.1. Overview of Jordanian Economy .....	14
2.2.2. Overview of Jordanian Capital Market.....	16
2.2.3. Market Structure in Jordan.....	22
2.2.4. Institutional Setting in the Jordanian Capital Market .....	24
2.2.5. Corporate Governance in Jordan .....	29
2.3. Institutional Context in Australia .....	32
2.3.1. Overview of Australian Economy .....	32
2.3.2. Overview of Australian Capital Market.....	35
2.3.3. Market Structure in Australia.....	37
2.3.4. Institutional Setting in Australian Capital Market.....	38
2.3.5. Corporate Governance in Australia .....	41
2.4. A Comparative Analysis of Institutional Settings in Both Countries .....	43

2.5. Conclusion.....	44
<b>Chapter 3: Theoretical Framework, Literature Review and Hypotheses Development .....</b>	<b>45</b>
3.1. Introduction .....	45
3.2. Theory of Corporate Governance .....	45
3.2.1. Agency Theory .....	45
3.3. Literature Review and Hypotheses Development on Corporate Governance and Firm Performance .....	48
3.3.1. Boards Structure and Firm Performance.....	48
3.3.2. CEO-Chairman Duality and Firm Performance .....	55
3.3.3. Audit Committee and Firm Performance .....	56
3.3.4. Remuneration Committee and Firm Performance .....	60
3.3.5. Ownership Structure and Firm Performance.....	62
3.3.6. Executive Incentives and Firm Performance .....	68
3.3.7. External Audit and Firm Performance .....	70
3.4. Theory of Dividend Policy .....	71
3.4.1. Signalling Theory .....	71
3.5. Literature Review and Hypotheses Development on Corporate Governance and Dividend Policy.....	74
3.5.1. Board Structure and Dividend Policy .....	74
3.5.2. CEO Duality and Dividend policy.....	77
3.5.3. Audit Committee Independence and Dividend Policy.....	79
3.5.4. Ownership structure and Dividend policy .....	80
3.5.5. External Audit and Dividend Policy Hypotheses .....	87
3.6. Conclusion.....	88
<b>Chapter 4: Data and Research Methodology .....</b>	<b>89</b>
4.1. Introduction .....	89
4.2. Sample Selection and Data Sources .....	89
4.2.1. Sample Selection .....	89
4.2.2. Data Sources .....	90
4.3. Measurements of Variables .....	91
4.3.1. Dependent Variable (Firm Financial Performance).....	93
4.3.2. Dependent Variables (Dividend Policy) .....	95

4.3.3. Independent Variables (Corporate Governance Variables).....	96
4.3.4. Measurements of Control Variables .....	99
<b>4.4. Empirical Methods .....</b>	<b>102</b>
4.4.1. Pooled OLS Regression .....	102
4.4.2. Panel Techniques (FE or RE Models) .....	103
4.4.3. Endogeneity Problems .....	105
4.4.4. Generalize Method of Moment (GMM) .....	106
<b>4.5. Regression Models .....</b>	<b>110</b>
4.5.1. Relationship between Corporate Governance Variables and Firm Performance .....	110
4.5.2. Relationship between Corporate Governance Variables and Dividend Policy .....	111
<b>4.6. Conclusion.....</b>	<b>112</b>
<b><i>Chapter 5: Relationship between Corporate Governance Mechanisms and Financial Performance: Results and Discussions.....</i></b>	<b><i>113</i></b>
<b>5.1. Introduction .....</b>	<b>113</b>
<b>5.2. Descriptive Statistics.....</b>	<b>113</b>
5.2.1. Descriptive Statistics of Jordanian Firms.....	113
5.2.2. Descriptive Statistics of Australian Firms .....	114
5.2.3. Comparison between Australian and Jordanian Firms .....	115
<b>5.3. Correlation Matrix of Variables.....</b>	<b>120</b>
5.3.1. Correlation Matrix of Variables for Jordanian firms .....	120
5.3.2. Correlation Matrix of Variables for Australian firms .....	121
<b>5.4. Evidence from Regression Models .....</b>	<b>124</b>
5.4.1. OLS Regression Results for Jordanian Firms (Pooled Model) .....	124
5.4.2. OLS Regression Results for Australian Firms (Pooled Model) .....	132
5.4.3. Lagrange Multiplier Test, Hausman Test and Panel Models .....	137
5.4.4. Endogeneity Test and Dynamic System GMM Model.....	139
5.4.5. Discussion of Regression Results for Jordanian Firms.....	153
5.4.6. Discussion of Regression Results for Australian Firms.....	158
5.4.7. Comparison of Findings in the GMM between Jordanian and Australian Firms .....	162
<b>5.5. Conclusion.....</b>	<b>164</b>
<b><i>Chapter 6: Relationship between Corporate Governance Mechanisms and Dividend Policy: Results and Discussions.....</i></b>	<b><i>168</i></b>



<b>6.1. Introduction .....</b>	<b>168</b>
<b>6.2. Descriptive Statistics.....</b>	<b>168</b>
<b>6.3. Correlation Matrix of Variables.....</b>	<b>172</b>
6.3.1. Correlation Matrix of Variables for Jordanian Firms .....	172
6.3.2. Correlation Matrix of Variables for Australian Firms .....	175
<b>6.4. Evidence from Regression Models .....</b>	<b>175</b>
6.4.1. OLS Regression Results for Jordanian Firms (Pooled Model) .....	176
6.4.2. OLS Regression Results for Australian Firms (Pooled Model) .....	182
6.4.3. Heterogeneity Test and Panel Models .....	187
6.4.4. Panel Regression Results for Jordanian Firms (FE or RE Models).....	188
6.4.5. Panel Regression Results for Australian Firms (FE or RE Models).....	191
6.4.6. Discussion on Regression Findings for Jordanian Firms .....	194
6.4.7. Discussion on Regression Findings for Australian Firms .....	198
6.4.8. Comparison of Findings in the Random-Effects Model between Jordanian and Australian Firms .....	202
<b>6.5. Conclusion.....</b>	<b>203</b>
<b><i>Chapter 7: Conclusions and Implications .....</i></b>	<b><i>206</i></b>
<b>7.1. Introduction .....</b>	<b>206</b>
<b>7.2. Key Empirical Findings.....</b>	<b>206</b>
7.2.1. Corporate Governance Mechanisms and Firm Performance in Developed (Australia) and Developing (Jordan) Countries .....	207
7.2.2. Corporate Governance Variables and Dividend Policy in Developed (Australia) and Developing (Jordan) Countries .....	209
<b>7.3. Contribution of the Study.....</b>	<b>211</b>
<b>7.4. Implications of Study .....</b>	<b>212</b>
7.4.1. Implications for Policy .....	212
7.4.2. Implications for Theory .....	213
7.4.3. Implications for Practices .....	213
<b>7.5. Limitations of the Study .....</b>	<b>216</b>
<b>7.6. Suggestions for Future Research.....</b>	<b>217</b>
<b>References .....</b>	<b>219</b>
<b>Appendix 1: Table 2.12: Principles and recommendations of corporate governance followed in Australia .....</b>	<b>246</b>

<b>Appendix 2:</b> Panel Regression Results for Jordanian Firms (Fixed Effects or Random Effects Models) .....	248
<b>Appendix 3:</b> Panel Regression Results for Australian Firms (Fixed Effects or Random Effects Models) .....	251
<b>Appendix 4:</b> Endogeneity Test .....	254

## List of Tables

<b>Table 2.1:</b> Jordan – selected economic indicators, 2005-2011 .....	15
<b>Table 2.2:</b> Main indicators for ASE 2005-2011 .....	20
<b>Table 2.3:</b> Value of primary market issues .....	22
<b>Table 2.4:</b> Trading value of the secondary market .....	23
<b>Table 2.5:</b> Market segmentation .....	23
<b>Table 2.6:</b> Trading value of primary and secondary markets by new sector classification.....	24
<b>Table 2.7:</b> Market capitalization of listed companies by sector in ASE from 2005 to 2011 (JD billion) .....	24
<b>Table 2.8:</b> Total assets of banks operating in Jordan and its ratio to GDP (2005–2011).....	27
<b>Table 2.9:</b> Australia- selected economic indicators, 2005–2011 .....	33
<b>Table 2.10:</b> Main indicators for ASX 2005–2011 .....	37
<b>Table 2.11:</b> Top 10 in overall index ranking, 2012 vs. 2011 .....	38
<b>Table 4.1:</b> Jordanian non-finance sector of the sample firms.....	90
<b>Table 4.2:</b> Australian non-finance sector of global industry classification standard of the sample firms .....	90
<b>Table 4.3:</b> Variables measurements and sources .....	92
<b>Table 4.4:</b> Ownership types, ownership concentration variables and definition.....	99
<b>Table 4.5:</b> Expected relationships between explanatory variables and firm performance .....	111
<b>Table 4.6:</b> Expected relationships between explanatory variables and dividend policy .....	112
<b>Table 5.1:</b> Summary statistics of firm performance, corporate governance and control variables (Jordanian non-finance firms) .....	117
<b>Table 5.2:</b> Summary statistics of firm performance, corporate governance and control variables (Australian non-finance firms).....	118
<b>Table 5.3:</b> Comparisons of means/medians for Jordanian and Australian non-finance firms.....	119
<b>Table 5.4:</b> Pearson correlation for all variables in Jordanian non-finance listed companies (N=464) .....	122
<b>Table 5.5:</b> Pearson correlation for all variables in Australian non-finance listed companies (N=1438) .....	123
<b>Table 5.6:</b> OLS regression results of the corporate governance mechanisms and financial performance measured by ROA for Jordanian non-finance listed firms .....	125
<b>Table 5.7:</b> OLS regression results of corporate governance mechanisms and financial performance measures by ROIC for Jordanian non-finance listed firms .....	128
<b>Table 5.8:</b> OLS regression results of the corporate governance mechanisms and financial performance measured by log TQ for Jordanian non-finance firms.....	130

<b>Table 5.9:</b> OLS regression results of corporate governance mechanisms and financial performance measured by ROA for listed Australian non-finance firms .....	133
<b>Table 5.10:</b> OLS regression results of the corporate governance mechanisms and financial performance measured by ROIC for listed Australian non-finance firms .....	135
<b>Table 5.11:</b> OLS regression results of the corporate governance mechanisms and financial performance measured by log TQ ration for listed Australian non-finance firms .....	136
<b>Table 5.20:</b> Systems GMM regression results of the relationship between corporate governance mechanisms and financial performance as measured by ROA for listed Jordanian non-finance firms .....	141
<b>Table 5.21:</b> System GMM regression results of the relationship between corporate governance mechanisms and financial performance as measured by ROIC for listed Jordanian non-finance firms .....	143
<b>Table 5.22:</b> GMM regression results of the relationship between corporate governance mechanisms and financial performance as measured by log TQ for listed Jordanian non-finance firms .....	145
<b>Table 5.23:</b> System GMM regression results of the relationship between corporate governance mechanisms and financial performance as measured by ROA for listed Australian non-finance firms .....	148
<b>Table 5.24:</b> GMM regression results of the relationship between corporate governance mechanisms and financial performance as measured by ROIC for listed Australian non-finance firms .....	149
<b>Table 5.25:</b> GMM regression results of the relationship between corporate governance mechanisms and financial performance as measured by log TQ for listed Australian non-finance firms .....	151
<b>Table 5.26:</b> Summary of hypotheses for listed Jordanian non-finance listed firms.....	157
<b>Table 5.27:</b> Summary of hypotheses for Australian non-finance listed firms.....	161
<b>Table 5.28:</b> Comparison of results in the GMM between listed Jordanian and Australian non-finance firms .....	163
<b>Table 6.1:</b> Summary statistics of dividend policy, corporate governance and control variables (Jordanian non-finance firms) .....	169
<b>Table 6.2:</b> Summary statistics of dividend policy, corporate governance and control variables (Australian non-finance firms).....	170
<b>Table 6.3:</b> Comparative mean and median for Jordanian and Australian non-finance firms .....	171
<b>Table 6.4:</b> Pearson correlation for all variables in the Jordanian non-finance companies (N=464) .....	173
<b>Table 6.5:</b> Pearson correlation for all variables in the Australian non-finance companies (N=1438) .....	174

<b>Table 6.6:</b> OLS regression results of the corporate governance mechanisms and dividend policy measured by POUT for Jordanian non-finance firms .....	177
<b>Table 6.7:</b> OLS regression results of the corporate governance mechanisms and dividend policy measured by DY for Jordanian non-finance firms .....	178
<b>Table 6.8:</b> OLS regression results of the corporate governance mechanisms and dividend policy measured by POUT for Australian non-finance firms .....	183
<b>Table 6.9:</b> OLS regression results of the corporate governance mechanisms and dividend policy measured by DY for Australian non-finance firms .....	184
<b>Table 6.10:</b> Panel regression results of the corporate governance mechanisms and dividend policy measured by POUT for Jordanian non-finance firms .....	189
<b>Table 6.11:</b> Panel regression results of the corporate governance mechanisms and dividend policy measured by DY for Jordanian non-finance firms .....	190
<b>Table 6.12:</b> Panel regression results of the corporate governance mechanisms and dividend policy measured by POUT for Australian non-finance firms .....	191
<b>Table 6.13:</b> Panel regression results of the corporate governance mechanisms and dividend policy measured by DY for Australian non-finance firms .....	193
<b>Table 6.14:</b> Summary of hypotheses of Jordanian firms .....	197
<b>Table 6.15:</b> Summary of hypotheses of Australian firms .....	201
<b>Table 6.16:</b> Comparison of results in the RE/FE between listed Jordanian and Australian non-finance firms .....	203

## **List of Figures**

<b>Figure 1.1:</b> Relationship between corporate governance variables and firm performance .....	11
<b>Figure 1.2:</b> Relationship between corporate governance variables and dividend policy .....	12
<b>Figure 2.1</b> GDP growth rate for Jordan between 2005 and 2012. ....	16
<b>Figure 2.2:</b> Market capitalisation of Jordanian listed companies at ASE (2004 to 2012) .....	21
<b>Figure 2.3:</b> Trend in number of Jordanian banks from 2005 to 2011 .....	25
<b>Figure 2.4:</b> GDP growth rate for Australia between 2005 and 2012 .....	33
<b>Figure 2.5:</b> Market capitalisation of Australian listed companies at ASX (2004 to 2012) .....	37
<b>Figure 2.6:</b> Australian capital raised (\$bn) 2005-2012 .....	38

## Acronyms

AASE	Australian Associated Stock Exchanges
ASE	Amman Stock Exchange
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
CBJ	Central Bank of Jordan
CEO	Chief Executive Officer
CGC	Corporate Governance Council
DWH	Durbin-Wu-Hausman
DY	Dividend Yield
EBIT	Earnings before Interest and Taxes
ETS	Electronic Trading System
EU	European Union
FE	Fixed Effects
GCC	Gulf Cooperative Council
GFC	Global Financial Crisis
GICS	Global Industry Classification Standards
GMM	Generalized Method of Moments
IAS	International Accounting Standards
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ITS	Internet Trading System
JIB	Jordan Investment Board
JSC	Jordan Securities Commission
JACPA	Jordanian Society of Certified Public Accountants
JSM	Jordan Securities Market
LQ	Liquidity Ratio
MENA	Middle East and North Africa
M&M	Miller and Modigliani
MR	Market Return
OECD	Organization for Economic Co-operation and Development
OLS	Pooled Least Squares
P/E	Price/earnings Ratio
POUT	Dividend Payout Ratio
R&D	Research and Development
RE	Random Effects
ROA	Return on Assets
ROE	Return on Equity
ROIC	Return on Invested Capital
SDC	Securities Depository Centre
SME	Small and Medium Enterprise
TQ	Tobin's Q
VIF	Variance Inflation Factors