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

Tariq Tawfeeq Yousif Alabdullah*, Sofri Yahya**, Mohamed Ibrahim Nor***, Firas Qassim Majeed****

* College of Administration and Economics, Accounting Department, University of Basrah, Iraq
** Graduate School of Business, University Sains Malaysia, Penang, Malaysia
***Faculty of Business and Accountancy, Simad University, Somalia
****[4]Finance Division, South Oil Company, Basrah, Iraq

Abstract

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

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

1. INTRODUCTION

Corporate governance is a collection of ideas represented by mechanisms and principles, and if collected and arranged in a convenient and logical manner, it is conducive to the business environment and it will become a system which is precise. Furthermore, when the steps of corporate governance are followed properly the applications will bring positive results which give added value to all interested stakeholder parties and that includes investors, customers, employees and any other parties having a vested interest. Corporate governance is concerned with controlling the performance of a company's executives in such a way that mitigates the conflict of interest between the shareholders and the management. In doing so it is important to ensure the best practices to improve disclosure and transparency and protect all interested parties are introduced and implemented. Internationally, in recent times corporate governance has gained a lot of attention and there has been a considerable growth in the practices of corporate governance in the aftermath of several scandals and worldwide financial crises (Alabdullah, Yahya & Ramayah, 2014; Mitton, 2002). Accordingly, there is a notion that companies worldwide ought to insulate themselves from weak corporate governance by ensuring best practices are adopted. Therefore, there is a view that good corporate governance leads to better performance of a company and those companies will fare better than those with poorer corporate governance practices (Franck & Sundgren, 2012). The existence of corporate governance in a company is to ensure there is separation between ownership and control, and this can lead to problems concerning shareholder-management (Byrnes, Dwyer, Henry & Thornton, 2003). The agency theory highlights the longstanding conflict of interest between the main two parties; the managers and shareholders and gauged to be one of the most controversial issues in the literature concerning management and finance. The structures of corporate governance deal with a number of factors including the composition of the board of directors such as: the number of directors appointed to a board, in other words the board size; and the ability of the board members to act with independence, which is known as the board independence. In addition, the corporate governance mechanisms deal with whether there is separation of the role of the Chief Executive Officer (CEO) and the chairperson of the board. If the structure is such that the Chairperson also undertakes the role of CEO, this is known as CEO-duality. It is acknowledged that a well functioning system of corporate governance can assist a company to raise funds, attract investment and this can all lead to enhanced levels of performance for a company. Furthermore, by adopting best practice corporate governance this can shield a company from being susceptible to future financial distress and crisis. The shareholders in the listed companies are represented by the members of the board. These executives have responsibility for directing the business affairs of a company. Thus, the board of directors can be viewed as a useful tool for shareholders and shareholders can offer an incentive for executives to uphold the interests of shareholders including those who provide finance.

The majority of previous studies have examined the relationship between corporate governance and the performance of firms from two perspectives: firstly, the importance of corporate governance to enhance the performance of a company; and secondly, from the economic viewpoint.

Based on the available literature examining the relationship between corporate governance and the performance of companies, the findings differ. Some of which showed a positive relationship exists, whilst others were positive and negative, finding significant and insignificant relationships exist from the perspective of a number of other mechanisms other than other mechanisms examining the performance of companies. Indeed it may be that a third variable (a moderating variable) has an effect on this relationship, contributing to the other mixed results.

Baron and Kenny (1986), Frazier, Tix and Barron (2004) and Holmbeck (1997) demonstrated that when the relationship between the independent variable and the dependent variable is poor or inconsistent, a moderating variable can be established in such a case to explain when or for what reason an independent variable affects a dependent one, especially when there is a study which empirically explains the existence of a positive effect on the relationship between the independent and dependent variables. This study investigates the role of executive turnover as a moderating variable on the relationship between corporate governance and the performance of a company. In doing so, this study fills an international gap regarding the breadth of examination in the previous studies, through the choice of executive turnover as a moderating variable in the relationship between a company's performance and corporate governance. No previous study has chosen this variable as a moderator to examine such a relationship. The moderating variable of executive turnover, with its potential occurrence, represents an inherent risk faced by executives; in that they may lose their employment, or at the very least their position might be changed. The pressure of turnover of executive managers is a mechanism which can enhance the corporate governance principles and can instill in executive managers an ethos to be flexible and active and as such does not necessarily have a negative connotation. In support of this viewpoint with respect to the importance of CEO turnover, (Lausten, 2002) and (Rachpradit, Tang & Khang, 2012) demonstrated that the probability of turnover that may face CEOs is an encouragement as well as a threat in that it stimulates the CEOs to align their welfare to those of their stockholders. Accordingly, that means the threat of possible CEO turnover ensures the senior executives buildup and maintain the principles and mechanisms of corporate governance to align with the shareholders' and executives' needs and, therefore, the managers' efforts will be tasked towards meeting the needs of shareholders by enhancing the performance of the company. In the same vein, Li, Sun and Ettredge (2010) acknowledged that executive turnover represents an important mechanism impacting on a company's ability to enhance its performance as the executives ultimately have responsibility to promote a company's performance.

A considerable body of literature has been published over the past two decades concerning performance and the literature provides practical evidence (Clarke, Seng & Whiting, 2011; García-Ramos & García-Olalla, 2011). What stands out in the literature regarding performance and its relationship with corporate governance system is the diversity of viewpoints leading to different findings obtained from this relationship. Some of literature in other countries supports the belief that corporate governance is vital, positive and significant in its relationship with a company's performance.

Based on the previous studies in the literature that have dealt with the link between corporate governance and the performance of companies, an obvious importance is revealed about the effect of corporate governance mechanisms on performance. Nevertheless, even with the highlighted importance related to the performance of companies linked to the effectiveness of the application of corporate governance mechanisms (Dwivedi & Jain, 2005), yet there is a real need to examine the indicators of performance of a company from a new viewpoint. Therefore, researches and scholars ought to focus on the important facet of the measurement of a company's financial performance. In addition, this matter lies in giving serious attention to the issue of the existence or non-existence of income smoothing in net income whereby the amount of the net income could be smoothed by managers and might lead to deceptive results. This matter is so important and critical because several studies in the literature are based on financial measurements like Tobin's Q, ROE, and ROA in measuring the financial performance of companies (Amran & Che-Ahmad, 2009; Mashayekhi & Bazaz, 2008) and this might lead to the probability of such measurements to be included with income smoothing. This then could lead to an unrealistic image of performance. Accurately measuring the performance of companies has become such an important research topic by the researchers and scholars due to its recognized positive effect on reducing unemployment levels and helping to alleviate social and economic problems (Cooke, 2001).

With respect to Jordan's economy, there are a number of economic problems. A significant problem is that Jordan's economy has been declining for the last few years as confirmed by World Economic Forum (2008-2012) due to the lack of performance of the non-financial sector as substantiated by the report issued by the Amman Stock Exchange (ASE) for the period (2005-2009) and Al-Qaisi (2013). Moreover, the economic problem in Jordan is that the Jordanian economy has suffered from a high unemployment rate because currently Jordan has received a huge number of migrants (Al-Shatti, 2014). Furthermore, as claimed by Rajoub (2013), Jordan is suffering from several business problems. Firstly, disclosure is not extensively used in Jordanian companies thus Jordanian companies lack information disclosure and transparency and this lack of transparency and disclosure, which are important facets of the practices of corporate governance, impacts negatively on the performance of companies. Secondly, there is a high risk and volatile returns in the firms listed at Amman Stock Exchange (ASE). Thirdly, there is a huge amount of speculation in the Jordanian context, whereby speculators control the market for the interest of big shareholders. Fourthly, the Jordanian businesses are not as mature in comparison to businesses in the developed countries and this lack of maturity indicates that the corporate governance system in the companies in Jordan are weak and yet to be strengthened by adopting best practices of corporate governance.

A further shortcoming in most of previous studies in the literature is due to the use of conventional methods to measure financial performance such as ROE, ROA, etc., whereas the modern trends test and focus on utilizing other measurements. Marr and Schiuma (2003) claimed that in spite of the extensive contemporary trends towards measurement of a company's performance that have been undertaken by several studies in the literature which used many new approaches for the measurement of a company's performance, the field of performance of companies still needs more contributions and deliberations to overcome and recover the lack and weakness in the performance measurements. Hence, here is another problem represented by a scarcity and therefore a lack of the empirical evidence in the previous studies in the literature concerning the provision and utilization of a new measurement to examine the performance of companies.

To address the practical and theoretical issues the current study intends to utilize new measurements to examine the financial performance of companies. For the dependent variable of the present study, financial leverage is utilized to represent the financial performance of the non-financial companies in Jordan. Moreover, the current study introduces a moderating variable of executive turnover in the relationship between the corporate governance mechanisms and a company's financial performance. In addition, the present study investigated financial leverage as a measurement to avoid confusion, to avoid the problem of being misled which might result from the practices of income smoothing. Because of that, the net income might be smoothed which ultimately may affect the performance measurements. Thus, the current study depended on financial leverage measurement which computes, as demonstrated by Lang, Stulz, and Walkling (1991) and Welch (2011), as the total debts to the owners' equity (capital). In line with them, Al-Sakran (2001) concurred with this view.

The theoretical problem in the present study lies in the existence of a global gap in both developing and developed economies resulting from the multiplicities in the findings of previous studies in the literature that analyzed the relationship between corporate governance and the performance of companies, whereby all countries applied the same corporate governance system within their economic environment. Thus, the present study intends to fill this universal gap through investigating the role of executive turnover as a moderating variable on such a relationship and test uniquely from novel perspective a new measurement to represent the financial performance of a company.

In all contexts including Jordan, no previous study has explored the link between the corporate governance mechanisms of ownership structure and board of directors and from the perspective of a company's performance to ensure manipulation of the measurements is avoided Therefore, the present study tries to address this gap through investigating the relationship between corporate governance and the performance of Jordanian companies in the non-financial sector. In addition, the current study aims to investigate executive turnover as a moderating variable in the relationship between corporate governance and the performance of a company. Note that, executive turnover is the instrument which may enhance both corporate governance and the performance of a company; in that executive turnover will most likely necessitate the board of directors to ensure compliance and implementation of good corporate governance practices in order to enhance a company's performance. In view of that, the present study presents the following two questions:

1. What is the relationship between the corporate governance mechanisms and the financial performance of Jordanian companies in the industrial and service sector (non-financial sector)?
2. Does executive turnover moderate the relationship between the corporate governance mechanisms and a company's financial performance?

Based on above the discussion, the present study systematically investigates the relationship between the mechanisms of corporate governance and the financial performance of companies in light of executive turnover as a moderating variable in the Jordanian non-financial listed companies at Amman Stock Exchange (ASE).

This study is structured so that following the introduction some related studies in the literature are presented in Section 2. Next the theoretical framework and hypotheses development are reviewed in Section 3. Section 4 shows the methodology that includes the sample and data source utilized in the study. Section 5 reports the results and provides a discussion. Section 6 outlines the implications of the study and finally Section 7 provides the concluding comments.

2. LITERATURE REVIEW

Corporate governance is tool which can be used to find a solution to the problems arising from conflict between the shareholders and management. The shareholders, as providers, seek ways in which to ensure the agent (management) handles their investment to achieve their interest.

Several studies in the literature (see, for example, Firth, Fung & Rui, 2006; Weir, Laing & McKnight, 2002) claimed that the mechanisms of corporate governance can be divided into internal and external mechanisms. They clarify that the two vital internal mechanisms for corporate governance: the structure of the board of directors; and the ownership structure. They revealed that the external mechanism is a company's market control. In developing countries, market control can be extremely weak and due to this weakness, the internal mechanisms have a key role in corporate governance in these countries (Al-Hawary, 2011; Lei & Song, 2004). In addition to the important elements of the board's attributes, the structure of ownership is supposed to have an impact on the decision-making process of the management-level and consequently on the performance of a company. Several researchers confirm such an issue (Demsetz & Villalonga, 2001; Kapopoulos & Lazaretou, 2007). They claimed that the ownership structure in a company is a main determinant which alleviates the agency problems taking place between the management-level and shareholders. Thus, the internal mechanisms of corporate governance under examination for this study are represented by board of directors' characteristics and the ownership structure.

3. A FIRM'S PERFORMANCE

From agency theory perspective, the performance of a firm in the accounting/management literature has been analyzed as a core dependent variable and a vital goal that should be enhanced and achieved (Haniffa & Hudaib, 2006). As mentioned previously, in the context of this study a company represents a firm. Therefore, the main target of the performance of a company is to improve the efficiency and effectiveness of the company for it to reach its objectives and for survival in the long term (Alabdullah *et al.,* 2014).

The majority of studies in the literature that have examined performance of firms have been published over the past few decades. It has extensively become a very important issue by scholars and academics due to its positive impact to solve social problems by reducing unemployment levels and by enhancing the economy (Cooke, 2001). Hence, there have been a number of intensive studies in the literature in developed countries that investigated the performance of firms (Clarke *et al.*, 2011). Nevertheless, there has been little awareness and attention given in relation to the performance of companies in developing countries and Jordan is no exception (Al-Hawary, 2011).

Furthermore, as admitted by Marr and Schiuma (2003), in spite of the extensive developments in the literature regarding the testing of the measurement of performance of firms several researchers and scholars have used many new methods to measure the performance of firms, yet this field needs further deliberations and contributions to overcome the lack of such measurements. Therefore, the current study internationally contributes to the field of performance of firms through utilizing financial leverage as a measurement to reflect a company's financial performance.

Financial leverage has been chosen in a wave of previous literature as one of the components of capital structure and risk (See Amidu, 2007; Artikis, Eriotis, Vasiliou & Ventoura-Neokosmidi, 2007; de Wet, 2006; Hull, Stretcher & Johnson, 2011; Ooi, 1999). In addition, another wave investigated financial leverage as an important indicator to represent capital structure in the area of corporate governance (Bokpin, 2011; Fauzi & Locke, 2012; Majumdar & Chhibber, 1999; Suto, 2003). However, based on the literature, in top journals of economics and corporate finance, financial leverage is considered as an important issue in relation to performance evaluation; in that financial leverage is seen as one of the important indicators to evaluate performance. More explicitly, financial leverage has been widely recognized and supported by the literature as a choice for representing performance. For example, Griffin and Mahon (1997) utilized financial leverage as one of the variables used to measure financial performance. In the same vein, Fang *et al.* (2009) used three measurements for measuring firm performance: Tobin's Q; OIOA; and financial leverage. Wen, Rwegasira and Bilderbeek (2002) claimed that financial leverage is a tool utilized by managers to reflect a good performance of a firm. They found that in the instance of lower rates of financial leverage, it is understood that performance would be enhanced. In the same vein, another wave of previous literature considered financial leverage as one of financial performance indicators in different areas: corporate governance (Alqisie, 2014; Samad, 2004); performance evaluation (Ertuğrul & Karakaşoğlu, 2009; Oded, Michel & Feinstein, 2011); business performance (Chow-Chua *et al.*, 2003; Monea, 2009); and the value of a firm (Fang, Noe & Tice, 2009). All such literature accepts this variable as a measurement of a company's financial performance.

Besides the contribution of the current study in selecting financial leverage as a financial measurement, this study moreover adds another contribution for utilizing a suitable measurement for examining financial leverage. The majority of studies in the literature (e.g., Alkhatib & Marji, 2012; Bhagat & Bolton, 2008) calculated it as total debts to total assets, also this measurement might include income smoothing. However, the present study utilizes financial leverage in another way. In more detail, the present study will be based on measuring and calculating the financial leverage in a way that is vastly different from that used by previous studies in the literature. Most of studies examining financial leverage relied on total debts (liabilities) divided by total assets. Although this method has widespread acceptance in relation to the calculation of financial leverage, yet it may not show the realistic picture of a company's performance because this method includes income smoothing; a practice used by management teams in companies.

Hence, the method of measurement utilized by the majority of studies in the literature is subject to the behavior of income smoothing and importantly the present study focuses on the necessity and importance of calculating financial leverage by using a method of measurement away from the possibility of the behavior of income smoothing in order to eliminate misleading measurements. Thus, the present study is based on measuring the financial performance (financial leverage) of the non-financial companies by the total debts to the owners' equity; bearing in mind, this equation has been utilized by a few of studies (Ertuğrul & Karakaşoğlu, 2009; Lang *et al.*, 1991). It can be noted that the present study relies on this equation in order to avoid the behavior of income smoothing, if any is in existence. Moreover, this equation utilized by the current study also included short-term debts to be repaid in the same year; as well as long-term debts owed by companies over several years for the coming period and this in turn is an indicator of a company's performance (Ertuğrul & Karakaşoğlu, 2009). Thus, it also focuses on the investment amount in the long-term loans to buy assets that reveal the capability of a company through these assets to generate profits over several years.

4. EXECUTIVE TURNOVER AS A MODERATOR

There are extensive studies in the literature examining corporate governance and the performance of firms (e.g., Heracleous, 2001; Yermack, 1996), for which corporate governance is used as an independent variable and the performance of a company as a dependent variable. However, no previous study has investigated nor chosen the role of executive turnover as a moderating variable in the relationship between corporate governance and the performance of a company.

The current study has two main justifications. The first rationale is related to the reason why the current study has selected a moderating variable, while the second justification shows why executive turnover is suitable to be chosen as the moderating variable in the relationship between corporate governance and the performance of a company.

In examining the first mentioned justification in choosing a moderating variable, as claimed by Baron and Kenny (1986), when the relationship between an independent variable and dependent variable is poor or inconsistent, the moderating variable can be established in such a case to strengthen or weaken such a relationship and to explain when or for what reason an independent variable affects a dependent one.

The second mentioned justification to explain why executive turnover is suitable to be a moderating variable is that one of the important objectives of the system of corporate governance is to deal with the problems and conflicts arising between the executives and shareholders which can lead to lower levels of performance of a company (Morellec, Nikolov, & Schürhoff, 2012). Moreover, due to the fact that studies have indicated that executives are the reason for agency problems and conflict with the shareholders, by focusing on this issue a better understanding can be made of the ways in which to alleviate such problems. Thus, the current research has selected executive turnover as a moderating variable in the relationship between the performance of a company and the mechanisms of corporate governance.

The third reason lies in the belief that when the CEO (the general manager) resorts to the decision to go down the path of executive turnover (about hiring, replacing, and changing the executives), the CEO is in doing so using a tool of pressure on the board of directors to implement to act to hire and or replace executives. This procedure, made by the board of directors on behalf of the shareholders, is characterized by efficiency, control and by monitoring the actions of executives. It is worth mentioning that the existence and survival of executives in a company in the long-term might well create a risk, whereby these executives through the creation of relationships with the members of the board of directors may well dominate and so they may have the power to impose their decisions on the company. In doing so, the power and ability of the board of directors to monitor and control them may well be less than ideal, affecting negatively on the performance of companies and creating agency problems. Furthermore, executive turnover is acknowledged to lessen the likelihood of the executives' ability to manipulate the board of directors This current research's notion strongly asserts, further to the claims of Baysinger and Butler (1985) and Westphal and Zajac (1995), that the board of directors with their power to hire, fire and replace the executive could be a significant solution for the agency problems.

The fourth reason is related to the third one; in that the decision of turnover is promoted by best practice corporate governance principles and processes. Specifically, the moderating variable of executive turnover will be the instrument of pressure imposed by the general manager (CEO) on the board of directors to implement the decision of turnover. This will establish that with best practice corporate governance an efficient board ought to be able to use a precise corporate governance system to assist in enhancing the shareholders' wealth, and to improve the performance of companies.

Finally, the notion of the possible occurrence of executive turnover represents an inherent risk in the minds of executives; in that they may lose their work, or that their position might be changed. As mentioned previously, the pressure of turnover of executive managers is a mechanism which can enhance the principles of corporate governance and can instill in executive managers an ethos to be flexible and active and so does not necessarily be seen to have a negative connotation. Previous studies (Lausten, 2002; Rachpradit *et al.*, 2012) have demonstrated that executive turnover has an important and significant role in relation to shareholders' wealth and the performance of firms. The rationale is that the possibility of turnover might be met by executives as an encouragement and or as a threat that stimulates them to act to align their welfare to the needs of the stakeholders including shareholders. Accordingly, the mechanism of executive turnover can strengthen the principles and mechanisms of corporate governance to benefit the shareholders and executives as the managers' efforts will be directed towards meeting the needs of stakeholders including shareholders and this then might lead to better performance of companies.

It is worth mentioning that the agency theory, as argued by Jensen and Meckling (1976), deals with the inherent problem of the separation of ownership and management. It asserts the necessity to align the wealth of shareholders with management. Hence, the performance of a company depends on the precision of such a relationship that combines these two parties. Accordingly, choosing executive turnover as a moderator is compatible with the principles established by the agency theory.

5. HYPOTHESES DEVELOPMENT

The independent variables in the present study are represented by the corporate governance mechanisms (CGM) as in its board size (BOS), board independence (IND), and CEO-duality. The dependent variable is a firm's financial performance (FFP) represented by financial leverage (FLV). The hypotheses of this study were developed in the direct relationship between CGM represented by BOS, IND, CEO-duality, and a firm's performance. In addition, the hypotheses were also developed based on a moderating effect namely executive turnover (EXE) for the fiscal year 2011. The current study selected 2011 because, as shown in World Development Indicators (2014), the 2011 year is considered as the intersection point between decline and recovery. Figures 1, 2, and 3 below illustrate this point in the Jordanian context.

Figure 1. Unemployment in Jordan

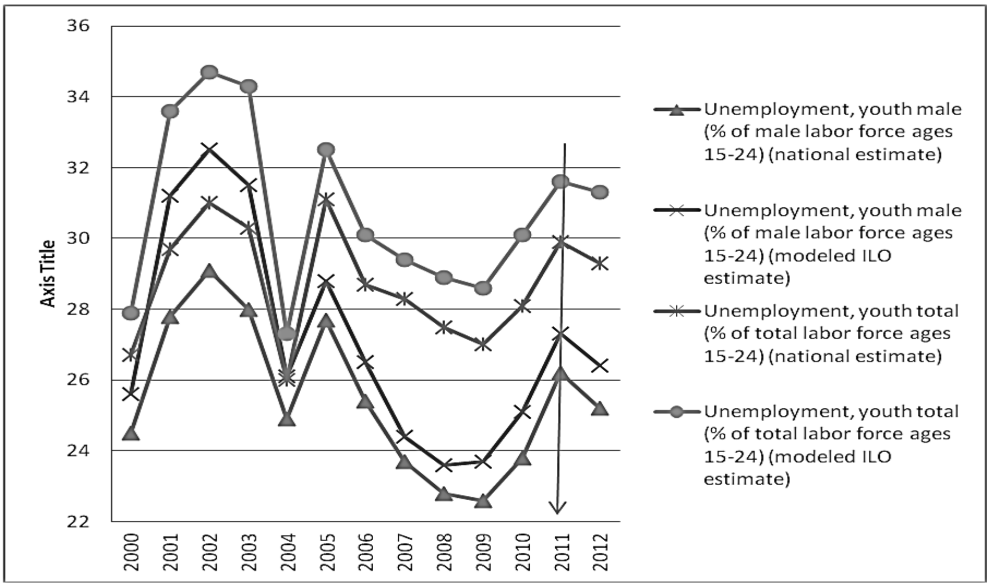


Figure 2. Gross Domestic Product Growth (annual percentage) in Jordan

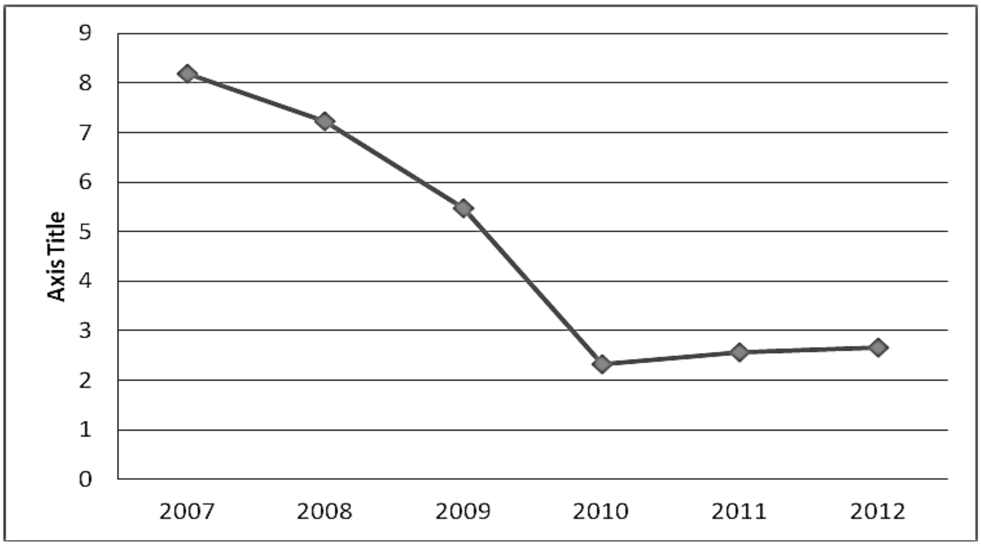
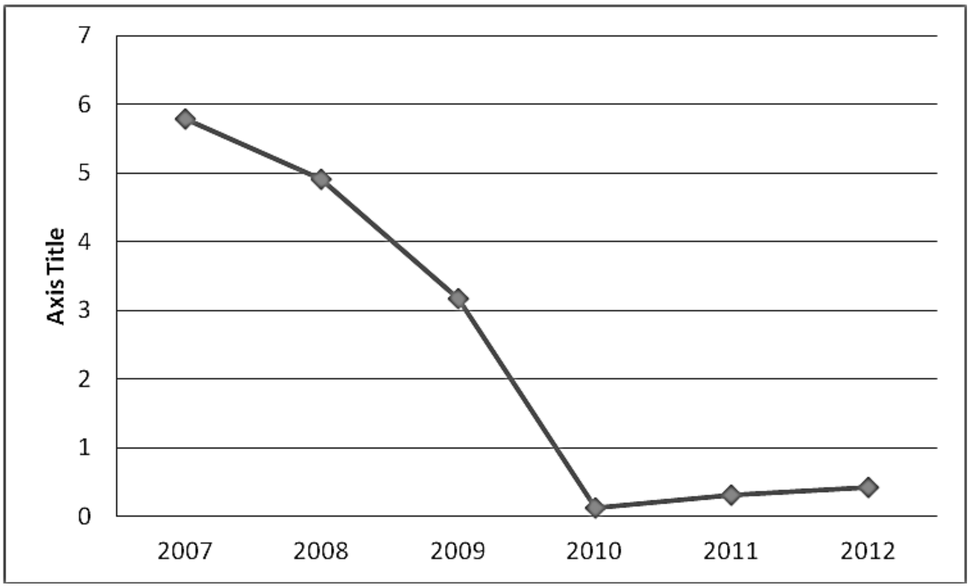


Figure 3. Gross Domestic Product per Capita Growth (annual percentage)



Based on what was is presented above, the Jordanian government, and ASE in particular, ought to consider finding solutions to deal with the problems faced by the non-financial sector in Jordan for an economic recovery for Jordan. Globally, corporate governance is considered as a good control system that is used at both the local and international level as an effective remedy to deal with poor performance in a company and to enhance a company's value. Thus, through the reliance on a corporate governance system, an improvement in the declining Jordanian non-financial sector can be achieved as a key to find a lasting solution to enable economic growth of Jordan's economy in the long-term. Therefore, the present research is considered as a response to a call for new research that aims to examine the relationship between the mechanisms of corporate governance and the performance of companies in Jordan's non-financial sector.

As mentioned previously, for this study corporate governance (CG) is represented by the board size (BOS), board independence (IND), and CEO-duality. These three mechanisms have been chosen in the current study for certain reasons. Firstly, such mechanisms are internal mechanisms and they are suitable for selection and testing in the Jordanian context as Jordan is one of the emerging economies and in such economies the external corporate governance as represented by market control is found to be weak as mentioned above. Secondly, in the previous studies undertaken in the Jordanian context, there is a recommendation from the researchers to test other mechanisms other than the previous focus on ownership concentration, CEO compensation, and board of director's meetings (Alqisie, 2014; Makhlouf, Laili, & Basah, 2014).

6. THE SIZE OF A BOARD AND A FIRM'S PERFORMANCE

A substantial body of work in the area of financial and organizational economics literature contends that the size of the board is an important and influential factor impacting on the performance of a firm and its success (Pfeffer, 1972). It is viewed as one of the effective mechanisms of corporate governance that oversees a firm's business operations and reduces the agency costs and plays an important role in a firm's performance (Shleifer & Vishny, 1997; Yermack, 1996). However, there is a diversity of findings in the previous studies concerning the effect of the size of the board of directors on the performance of a company. Some studies claimed that by increasing the number of directors appointed the board, the more effective the company is with better levels of performance (Jackling & Johl, 2009). Such studies found that a board of directors has a significant role in monitoring and controlling the company and consequently enhancing a firm's performance. On the other hand, as admitted by Yermack (1996), there is a positive relationship between the traditional governance variables, like a small board size and a firm's value. Notwithstanding the two points of view above, some of the previous studies argued that the board size has no effect on the performance of a firm. For example, Topak (2011) demonstrated there is no relationship between the size of a board and a firm's performance.

In the current study, financial leverage is the proxy for a firm's financial performance (FFP). Financial leverage (FLV) has been chosen in a previous wave of literature as one of the essential components or proxies for capital structure (Hull, Stretcher & Johnson, 2011). In addition, another wave of studies examined financial leverage as an important indicator to represent capital structure in its relationship with the mechanisms of corporate governance. Importantly, to the best knowledge of the researchers, there is no previous study that has investigated corporate governance and the financial performance of companies by using financial leverage as a proxy of financial performance. For example, some of previous studies' results in developed countries, (Berger, Ofek, & Yermack, 1997), others in developing countries and more recently in Jordanian context, a study undertaken by Alqisie (2014) found that there is a negative relationship between the board size and financial leverage. Thus, in order to predict a hypothesis between the size of the board and financial leverage (FLV), this study predicts that increasing the number of directors appointed to the board, in other words increasing the size of the board, ought to be associated with increased performance of a firm. Furthermore, a negative relationship with financial leverage will be demonstrated and eventually a positive relationship with a firm's financial performance will be found to exist. From the discussion above, the following hypothesis is made:

H1 There is a negative relationship between the board size (BOS) and a firm's financial leverage (FLV).

7. BOARD INDEPENDENCY AND A FIRM'S PERFORMANCE

It has been argued in the literature that the existence of non-executive directors appointed to the board has a positive effect in alleviating and reducing agency costs. Several previous studies have analyzed the relationship between the independence of a board and corporate performance (Chaghadari, 2011) and the results were inconsistent. A board of directors with a number of outsiders (non-executive independent board members) creates an environment to enable active monitoring by the board and can lead to enhancing a firm's performance (Mashayekhi & Bazaz, 2008). On the other hand, Yermack (1996), for instance, claimed that a high proportion of independent board directors has a negative effect on a firm's performance. More specifically, in the Jordanian context, a study undertaken by Al-Hawary (2011) found that the non-executive directors (independent board directors) had a statistically significant and positive effect on a firm's performance. Based on this viewpoint, the following hypothesis has been developed:

H2 There is a negative relationship between the independent board directors (IND) and a firm's financial leverage (FLV).

8. CEO-DUALITY AND A FIRM'S PERFORMANCE

The role of duality could contribute to a lack of transparency and accountability within a company. The duality of the role of CEO and chairman, as stated by Baliga, Moyer and Rao (1996), has little and very weak evidence related to its effect on the performance of a firm. Nonetheless, when the power and control is devolved to one person it is possible it can lead to the decisions made by them to impact negatively on the shareholders. Thus, CEO-duality can have a negative effect on a firm's performance (Chaghadari, 2011). Dalton, Daily, Ellstrand and Johnson (1998) contended that the agency theory puts forward the viewpoint of a preference of the separation between the CEO and the board chairman position because duality increases the entrenchment of the CEO and consequently reduces monitoring effectiveness of the board of directors. Furthermore, the presence of duality in leadership could even contribute to the lack of transparency and accountability within the company. Baliga *et al.* (1996) argued that the duality of role of CEO and chairman of the board of directors has a negative effect on the performance of a firm. Therefore, it is hypothesized that:

H3 There is a negative relationship between the companies that do not have CEO-duality and financial leverage (FLV).

9. THE MODERATING EFFECT OF EXECUTIVE TURNOVER ON THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE MECHANISMS AND THE PERFORMANCE OF FIRMS

The decision to go down the path of executive turnover is via an instrument of pressure that is predicted by the present study to have a positive impact on the performance of companies as the probability of turnover presents an encouragement as well as a threat to executives and stimulates them to align their welfare to the needs of the stakeholders including the shareholders. The philosophy and interpretation behind the choice of executive turnover as a moderating variable in the relationship between corporate governance and the performance of companies is that the general manager, the CEO, has the right to make the decisions to hire, fire, and replacement any of the firm's executives. In that sense, the role of the board of directors is to follow the instruction made by the CEO for the decision to implement executive turnover. Thus, such a decision is most likely as a consequence of an instrument of pressure exerted on the board of directors to align the interests of the executives with the shareholders which consequently can lead to an enhancement of the performance of a company. Therefore, the present study predicts that higher levels of scrutiny of corporate governance will lead to higher levels of a firm's financial and non-financial performance when there is the presence of executive turnover. Accordingly, the following three hypotheses are made:

H4 A negative relationship between the size of the board (BOS) and financial leverage (FLV) is stronger when executive turnover (EXE) exists.

H5 A negative relationship between the independence of a board (IND) and financial leverage (FLV) is stronger when executive turnover (EXE) exists.

H6 A negative relationship exists between the companies that do not have CEO-duality and financial leverage (FLV) is stronger when executive turnover (EXE) exists.

10. METHODOLOGY

Based on the objectives of this study provided in the introduction and the arguments presented in the literature, the following estimating model is presented:

$$FLV = \alpha_0 + \alpha_1 BOS + \alpha_2 IND + \alpha_3 CEOduality + \alpha_4 M1 + \alpha_4 M2 + \alpha_4 M3 + \varepsilon \quad (1)$$

Where FLV denotes the financial leverage of Jordanian companies, BOS is board size, IND stands for the independency of the board, and M1, M2 and M3 represents the interaction of BOS, IND and CEO-duality with executive turnover respectively.

The sample for the present study was derived from the non-financial companies listed in the ASE in

Jordan as a cross-sectional study through the collection of real data (primary data) from the annual reports for the fiscal year 2011.

For this study, the accounting data and other useful data for the dependent, independent and moderating variable was collected and analyzed to support the current study to achieve its goal. The present study measured the dependent variable of a firm's financial performance through financial leverage. The mechanisms of corporate governance namely the board size (BOS), the board independence (IND) and CEO-duality have been identified as the independent variables and the dependent one is financial leverage (FLV). In addition, executive turnover (EXE) is the moderating variable. Table 1 demonstrates the summary of the measurement of the variables measurement.

Table 1. Summary of the Measurement of the Variables

Number	*Variables*	*Acronym*	*Measurement*
	Dependent Variable		
1	Financial Leverage (as a percentage)	FLV	Financial leverage is measured as the total debt divided by the capital.
	Independent Variables		
2	Board Size (number)	BOS	The number of directors appointed to the board.
3	Independent board (as a percentage)	IND	Outside director equates to the number of outside directors appointed to the board.
4	CEO-Duality (as a number)	CEO-Duality	Whether or not the chairman is also the CEO during the year, where it will take the value of "1" if the CEO is also the chairman of the board, and "0" otherwise.
	Moderating Variable		
5	Executive Turnover (as a number)	EXE	The measurement of the executive turnover variable will be equal to "1" when there is a change in executives in the current year, "0" if otherwise.

The moderating variable of this study is the mechanism of executive turnover (EXE) which is measured by the available data in the annual report of the Jordanian non-financial listed companies for the year 2011. Executive turnover refers to the changes confronted by senior management team within the year in relation to all of the companies (Chi & Wang, 2009). Further, as argued by Denis, Denis and Sarin (1997), executive turnover might be considered as either mandatory or voluntary. Nonetheless, the current study will take into account both types of executive turnover because as mentioned by Chi and Wang (2009) what appears as voluntary turnover may be in fact involuntary, in that when hints are given from the board of directors, executives may choose to resign to avoid embarrassment. In fact, there will be no distinction made between these two types due to the difficulty of sorting and delineating any difference between the two types, in accordance with Chi and Wang (2009).

11. RESULTS AND DISCUSSION

11.1 Descriptive analysis

This section provides the descriptive analysis of the research variables; the dependent, independent and moderating variables for the 109 non-financial companies listed at the ASE through using descriptive statistics (mean, standard deviation, minimum and maximum) as shown in Table 2.

Table 2. Descriptive Statistics of all Variables

Variables	*Mean*	*Standard Deviation*	*Minimum*	*Maximum*
FLV	0.717	0.333	0.300	1.950
BOS	8.810	3.204	3.000	15.000
IND	0.394,	0.375	0.000	1.000

Based on the results of the descriptive statistics, the dependent variable of financial performance showed that the level of financial leverage of Jordanian non-financial companies equated to 71.77 percent representing the average of the companies' total debts to capital with a standard deviation of 0.333. Furthermore, the minimum and maximum reported level of financial leverage was 30 percent and 195 percent, respectively. For the independent variables of the board size (BOS) and the independence of the board (IND), the descriptive analysis for the corporate governance mechanisms (CGM) shows that the average of size of the board of directors for the entire sample is approximately nine members (mean = 8.81) with a standard deviation of 3.204. For the board independency of the companies in the sample, the result reveals that the mean is 39.4 percent with a standard deviation of 0.375. With respect to the dummy variables of CEO-duality and executive turnover, the results are provided in Table 3.

The analysis indicates for the dummy variables of CEO-duality and executive turnover (EXE), the CEO-duality in the non-financial companies in Jordan was 17.4 percent representing 19 companies, while 82.6 percent of the companies did not have duality (non-duality) signifying 90 companies, respectively as shown in Table 3. The descriptive statistics showed that majority of the non-financial companies in Jordan do not have CEO-duality. In relation to executive turnover (EXE), Table 4 shows that in the non-financial companies in Jordan was 61.5 percent signifying that 67 companies embraced executive turnover (EXE), while 38.5 percent for the companies did not as represented by 42 companies, respectively. Accordingly, the descriptive statistic indicated that majority of the non-financial companies in Jordan experience executive turnover (EXE).

Table 3. Statistics of CEO-Duality

	Frequency	*Percentage*	*Valid Percentage*
CEO-Duality	19	17.4	17.4
Non-Duality	90	82.6	82.6

Table 4. Statistics of Executive Turnover

	Frequency	*Percentage*	*Valid Percentage*
Executive Turnover (EXE)	67	61.5	61.5
Non-Executive Turnover	42	38.5	38.5

11.2 Correlation analysis

The correlation between the dependent and independent variables is illustrated in Table 5. The results indicated that two of the three independent variables have a negative relationship with financial leverage (FLV), with values for board size (BOS) at - 0.449, and independence of the board (IND) at - 0.076. On the other hand, the independent variable of CEO-duality was found to have a positive relationship with financial leverage, with a value of 0.143. The results demonstrated that the size of the board has a highly negative relationship with financial leverage with a value of - 0.449. Furthermore, this study analyzed the multicollinearity level between the independent variables which, in accordance with Hair (2010), needs to be less than 80 percent for multicollinearity not to be present.

Table 5. Correlations between Variables

	BOS	*IND*	*CEO-Duality*	*Financial Leverage (FLV)*	*EXE*
BOS	1				
IND	0.195*	1			
CEO-Duality	- 0.109	- 0.093	1		
FLV	- 0.449**	- 0.076	0.143	1	
EXE	0.313**	0.184	- 0.232*	0.136	1

*Level of significance *p < 0.10, **p < 0.05*

11.3 Multiple Linear Regression Analysis

For the present study, linear regression analysis was utilized for testing the hypotheses of the study. There are 6 hypotheses in the current study as mentioned above. Three are related to the direct effect of the corporate governance mechanisms (CGM) on financial leverage (FLV) of a firm's performance. On the other hand, the last three of the hypotheses are associated to the moderating effect of executive turnover (EXE) on the relationship between the independent variable of corporate governance mechanisms (CGM) and a firm's performance.

11.3.1 Regression Results of the Direct Relationship between CGM and FLV

To test hypotheses (H1, H2, and H3) that postulated a negative relationship exists between CGM (BOS, IND, CEO-duality) and financial leverage (FLV), the assumptions of linear regression were proved and the results are shown in Table 6.

The results showed that variance inflation factor (VIF) is less than 10 and tolerance values for the variables are more than 0.1. This means the model contains no multicollinearity as suggested by Dias, Petrini, Ferraz, Eler, Bueno, da Costa & Mourão, (2011). Moreover, the standard kurtosis is within ±3 and standard skewness ±1.96. As demonstrated by Brooks, (2014), the normality of data could be achieved if standard kurtosis is within ±3 and standard skewness ±1.96.

Table 6. Testing the Assumptions of Linear Regression for the Direct Relationships

Variables	*Tolerance Value*	*VIF*	*Kurtosis*	*Skewness*
Board Size	0.954	1.049	- 0.898	0.142
Board Independency	0.957	1.045	- 1.409	0.434
CEO-Duality	0.983	1.018	1.050	1.741

Furthermore, in Table 7, the results of regression analysis show that R square value is 0.211 for financial leverage (FLV). This means that R square value explains 21 percent of the independent variables: board size (BOS); independence of the board (IND) and CEO-duality on the dependent one of financial leverage (FLV).

Table 7. R Square of Financial Leverage

Model	*Financial Leverage (FLV)*
R Square	0.211
Sig. F Change	0.000

The autocorrelation was examined to check the normality of data by using the Durbin Watson (DW) test. In this regard, the Durbin Watson value of 1.515 is a good and acceptable value since it falls between the range of 1.5 and 2.5 as suggested by Knoke (2003). Accordingly, the results revealed there is no autocorrelation problem in the data.

In the current study, the first objective was to investigate the relationship between the corporate governance mechanisms of the board size (BOS), board independence (IND), and CEO-duality and financial leverage (FLV) in industrial and service companies listed at the ASE. The results of the analysis show a significant negative relationship between the board size (BOS) and financial leverage (FLV) with the following equation (β = -.442, $p < 0.01$.). This is consistent with the hypothesis proposed in the current study, which implies that companies with a larger board size have lower levels of financial leverage, and vice versa. In other words, the result indicates that there is a significant positive relationship between a larger board size and a firm's financial performance (FFP). This means the larger the number of directors appointed to a board; the higher is the financial performance of the Jordanian non-financial companies and vice versa. This result reveals that a board of directors in numbers used robust practices of corporate governance which indicates the managers have less tendency to employ financial leverage, thus the financial performance of these companies is higher. Accordingly, from the observations of the current study a negative association was found to exist between the board size and financial leverage and this result was consistent with the findings of the study of Berger *et al.* (1997). More specifically in the Jordanian context, a study undertaken by Alqisie (2014) revealed evidence that illustrates the presence of a negative relationship between the board size and financial leverage for the Jordanian companies listed at the ASE.

The second corporate governance mechanism tested in this study was the independency of the members of board. The result shows that there is an insignificant relationship between the independence of the board and financial leverage with the following equation (β = .019, $p > 0.1$). However, these results are not in line with the proposed hypothesis of the study in that there is a negative relationship between board independency and financial leverage. One probable reason for this result is that it is expected that the independent board members will bring a diversity of expertise and skills to the board. However, in the Jordanian listed companies in the non-financial sector, as mentioned by Vo and Nguyen (2014), it appears the outside (independent non-executive) directors have suffered from a lack of the skills and expertise, rendering their effect on the firm's financial leverage as nil. This result is in line with some empirical studies (Chaghadari, 2011; Mehran, 1995; Yermack, 1996) that found that board independence is not considered to be a significant factor that affects the level of a firm's performance.

The third mechanism used in the current study is the independent variable of CEO-duality. Recently the importance of separating the position of the CEO from the board chairman has come into consideration as an important role in alleviating agency costs (Booth, Cornett & Tehranian, 2002). This mechanism is seen as one of the useful mechanisms in alleviating agency problems within a company (Dalton *et al.*, 1998). CEO-duality is a mechanism that influences the overall performance of a company. The current study tested this mechanism and the results showed that the relationship between CEO-duality and a firm's financial performance (FFP) is insignificant (β = .005, $p > .1$). Hence, this result does not confirm the hypothesis of the current study that there is a negative relationship between companies that do not have CEO-duality and a company's financial performance. This reveals that this is not an important mechanism that can significantly affect the financial performance of firms in Jordanian non-financial companies. This result is consistent with Alqisie (2014) via a sample of Jordanian industrial companies listed on the ASE.

11.3.2 The Moderating Effect of Executive Turnover on the Relationship between CGM and FLV

Apart from a direct examination of the relationship between the mechanisms of corporate governance and a firm's financial performance, the study investigated the role of executive turnover as a moderating variable on such a relationship in the context of Jordanian non-financial listed companies.

For the fourth hypothesis, the study argues that a negative relationship exists between the size of the board of directors (BOS) and financial leverage (FLV) and is stronger when executive turnover (EXE) exists. In accordance with what the study has proposed, the statistical results show that there is a negative and significant relationship between BOS and FLV when EXE exists (β = -1.633, $p < 0.01$). This reveals that the relationship between BOS and FLV is stronger when there is moderating effect represented by executive turnover (EXE). This result is in line with the objective of the study that shows there is a negative relationship between the board size and financial leverage and it is stronger when executive turnover exists. Hence, it can be inferred that the existence of executive turnover strengthens the negative relationship significantly between the size of the board and financial leverage. Consequently, it can be observed that there is lower level of financial leverage when the executive turnover exists in Jordanian companies which have higher numbers of directors appointed to the board leading to higher levels of financial performance. Hence, this reveals that executive turnover is an important moderating variable to strengthen the negative relationship between the board size and financial leverage.

Fifthly, the current study examined the moderating effect of executive turnover (EXE) on the relationship between the independence of the board (IND) and financial leverage (FLV). The study revealed that there is a positive relationship between IND and FLV when EXE exists (β = .598, $p < .05$). This shows that when executive turnover exists, independent boards have a positive impact on financial leverage. This finding is at odds with the proposed hypothesis. In general, firms tend to have large numbers of independent members appointed to acquire more expertise and to broaden the knowledge to provide guidance to the mangers and to enhance the performance of companies. Nevertheless, in the context of Jordan, increased numbers of board members negatively affects the performance of the companies. This is due to number of reasons. Firstly, Dr. Henry Azzam Tawfiq, the Chairman of the Board of Directors in Jordan Investment Trust Co. Plc indicated that most of the independent members in Jordanian companies are government retirees. Secondly, since in the main they have previously been in roles managing the public sector (non-profit), they lack the skills required to manage the private sector, which is the profit sector (Tawfiq). Thirdly, since they are independent, they have no direct material interest. Fourthly, the non-executive is appointed by the board of directors and the board of directors has a close relationship with the executive team and through this relationship the executive team can establish a good relationship with non-executive one. This situation enables executive managers to have discretion and therefore they are able to manipulate the discretion of the independent board (non-executive) members who are less aware of the operations of the company. Fifthly, initially companies tend to appoint non-executives to build the image of their respective company due to an increased level of public confidence when there are more independent members appointed to the board of directors. Sixthly, as a consequence of the boost in image, a company is able to use this to advantage and borrow more.

The interaction result of the current study is inconsistent with the result of the direct relationship between the independence of the board (IND) members and financial leverage (FLV). The result revealed a negative relationship between them, while the interaction was insignificant. A possible explanation for this result is that the direct relationship was negative because the executives that have shares in the company and are sufficiently experienced and even though they are non-independent there is no direct material interest. Thus, they pursue a goal to work alongside with the independent board members to enhance the performance of their company. Adnan, Htay, Rashid and Meera (2011) showed that under the perspective of the agency theory, an independent board is a very effective mechanism to monitor the managers and alleviate the agency costs. On the other hand, they mentioned that executive directors have their own skills and valuable knowledge regarding the activities of the company. This reveals that in the current study the rationale behind the insignificant relationship between independent board (non-executive directors) and financial leverage with turnover existence, the skills and knowledge of executive directors in the Jordanian listed companies in the non-financial sector simply does not affect the independent directors' expertise in the way that leads these directors to have such an impact in the companies.

For the sixth hypothesis, the moderating effect of executive turnover (EXE) on the relationship between CEO-duality and financial leverage (FLV) was analyzed. This study found that there is a negative relationship between the companies that do not have CEO-duality and FLV when EXE exists ($\beta = .336$, $p < .10$). This reveals that in firms without executive turnover, CEO-duality has a negative (non-duality has positive) impact on a company's financial leverage. Alternatively, in companies with executive turnover, CEO-duality has a positive (non-duality has negative) impact on financial leverage. Thus, it can be observed that there is a lower level of financial leverage when executive turnover exists in companies without duality. This establishes that the occurrence of executive turnover improves the mechanisms of corporate governance as the managers' efforts had become effective towards the enhancing the shareholders' requirements, which leads to lower levels of financial leverage and, therefore, higher levels of performance of a company. This is in line with the agency theory perspective concerning the ownership structure. This means that the mechanism of executive turnover has an important role in enhancing a company's performance. Furthermore, the relationship between financial leverage (FLV) and CEO-duality is found at best to have a weak effect or no effect in most cases, as mentioned by many of previous studies in developed and developing counties (Heracleous, 2001; Mashayekhi & Bazaz, 2008). However, this study found that the existence of executive turnover improves the relationship between these variables. Therefore, it is strongly argued that the structure of dual leadership affects the degree of financial leverage when executive turnover exists. Furthermore, this study found that there is no relationship in the direct model but there is strong relationship in the interaction.

12. IMPLICATIONS

In this section, the implications of this study are presented in the following sub-sections. These implications are discussed from theoretical, methodological and practical perspectives.

12.1. Theoretical and methodological implications

This study utilized the agency theory to underpin the examination of the relationship between the mechanisms of corporate governance and the financial performance of companies in the Jordanian context in the non-financial listed companies in the ASE. The agency theory refers to a theory that deals with the relationship existing between two parties: the owners (principals) on the one hand and the management (agent) from the other (Jensen & Meckling, 1976). In the current study, the agency theory is used to explain the effect of the corporate governance mechanisms on the firms' financial performance. From the theoretical perspective, the basic assumption is to rely on agency theory which deals with the relationship between the principals (shareholders) and the agent (management) in relation to the problem that appears due to the separation between ownership and management (Jensen & Meckling, 1976). Management seeks to maximize their own benefit even if it does not account to the requirement of the shareholders. In this instance, some sort of conflict of interest can arise since both the principal and agent seek to maximize their own objectives, and it is likely that they will have different objectives. Therefore, it is prudent to introduce certain corporate governance mechanisms to reduce the opportunities of conflict. Promoting the financial and overall performance of a company is the aim that shareholders seek to achieve, and this is dependent upon the precision of the relationship between the principals and the agent. Roberts, Sanderson, Barker and Hendry (2006) argued that corporate governance appeared and was affected by the agency theory and its hypotheses. Therefore, one of the main targets of corporate governance is to solve the problems and conflicts that arise between the management team and shareholders because such conflicts could lead to lower levels of a company's performance.

This study provides several theoretical implications. Firstly, in relation to the dependent variable of a firm's financial performance (FFP), the current study takes into consideration important matters such as the choice of the measurement of the dependent variable. It chooses financial leverage to avoid the behavior of income smoothing, which is criteria that is easily able to be examined in the Jordanian context due to the available data. In doing so, this study can be considered as a response to calls for new research into the area of corporate governance and its mechanisms and the performance of companies because as admitted by Marr and Schiuma (2003) the discipline of the measurement of the performance of firms needs further deliberations and contributions to recover and overcome the lack of available studies examining the performance's measurements of firms. Thus, the present study globally contributes to the discipline of the performance of firms by choosing a suitable indicator to measure a firm's financial performance (FFP) and that is by way of financial leverage (FLV).

Secondly, in relation to financial leverage, from the developed and developing countries' perspective, this study uniquely contributes to the literature examining corporate governance (CG) and the performance of firms through the introduction of financial leverage (FLV) as a measurement to represent a firm's financial performance. Accordingly, the current study is one of the first studies to test financial leverage as a new indicator to measure a firm's financial performance (FFP) whereby to the best of the researchers' knowledge, no prior work has chosen a new way to measure financial leverage to eliminate income smoothing to measure a firm's financial performance in both developed and developing economies including Jordan. Moreover, the present study has a methodological implication in that it focuses not only on the importance of the measurement of financial leverage but also the way it is calculated or computed. Thus, the use of financial leverage to measure a firm's financial performance in the presence of the mechanisms of corporate governance in the Jordanian industrial and service firms is considered to provide a unique contribution to the existing literature. Thus, this study has introduced a new way of calculating financial leverage, which is considered as a methodological contribution to the existing body of literature. The majority of previous studies calculated financial leverage (FLV) using the following equation, which can be exposed to the problem of income smoothing:

$$FLV = \frac{Total\ Debt}{Total\ Assets}$$

Instead of using the above equation, this study used the following equation to avoid the problem of income smoothing:

$$FLV = \frac{Total\ Debt}{Capital}$$

The difference between the total assets and capital is that in total assets the amount of net income is implicitly included, whereas capital is used in this study as it is free from the net income. In addressing the weakness in the measurement of a firm's financial performance, whereby in the majority of previous studies no mention or consideration was placed on computing financial performance; in that the net income might be smoothed by the management team and it might lead to misleading results. The current study contributes in that it highlights the importance of the problem of income smoothing and through the choice of financial leverage as a measurement to compute a firm's financial performance it seeks to eliminate income smoothing. In so doing, the current study avoids making potential misleading mistakes that can affect the validity of the results.

Thirdly, this study utilized executive turnover as a moderating variable, which is a powerful tool that can be used by the board of directors to reduce the agency problems and reduce the conflict between the shareholders and the managers. The existence of executive turnover in a company influences the behavior of the management team. Accordingly, the managers are likely to act to align their interests to that of the shareholders as the managers will take into consideration the inherent risk turnover creates. Therefore, to maintain and protect their positions, they tend to follow the instructions given by the board of directors related to corporate governance processes and procedures. In doing so, this will enhance the welfare of the shareholders and promote the firm's performance; both financially and overall. Importantly, the use of such an instrument in monitoring the activities of the management team has not been given special attention in previous studies. Accordingly, this study is the first that uses executive turnover as a moderator to examine the relationship between the mechanisms of corporate governance and the performance of companies. Moreover, this variable has not been used as a moderator in the field of examination of the corporate governance area or any other areas relating to the study of management, accounting and finance. Thus, this study fills an international gap with respect to what has been examined in the previous literature and selecting such a variable has never been chosen before in previous studies. Crucially, this choice has neither been investigated in developed countries in general, nor in developing ones including in Jordan in particular. In so doing, the contribution of this study will add to the international literature and the literature examining corporate governance by enriching and expanding such literature and the knowledge of corporate governance and the performance of firms.

In general, the current study uniquely enriches the literature that examines corporate governance and the performance of firms especially through its measurement that represents a firm's financial performance by way of financial leverage and through investigating executive turnover as a moderating variable on this relationship, which no previous study has done.

12.2. Practical Implications

This study has several practical implications for Jordanian non-financial companies. However, before a discussion is presented about the practical implications, some important business issues are recapped. Firstly, although the Jordanian government issued regulations, such as privatization, since 1996 traditional business practices still dominates the majority of Jordanian businesses as stated by Rajoub (2013). This situation has led the country to not being able to attract foreign investments as had been anticipated. The current study found that foreign ownership does not positively contribute to the performance of companies, and this implies that foreign investors are still in the minority as Jordanian businesses are not sufficiently attractive due to the volatile return and high rate of risk. To tackle this serious problem, the government ought to formulate special programs such as introducing and implementing policies to attract foreign investors.

Secondly, there is a failure of Jordanian firms to disclose their information in a transparent way. This indicates that the practices of corporate governance are weak and need strengthening.

Thirdly, there is a very strong group of speculators who control the market for the interest of big shareholders.

Fourthly, the Jordanian businesses are not sufficiently mature and they differ from businesses in developed countries. Thus, the practices of corporate governance are not as strong as those in businesses in developed countries. However, there is a strong willingness from the business community in Jordan. Moreover, the government strives to achieve strong practices of corporate governance in Jordanian businesses since 1996 when the government initiated its first program of privatization.

Fifthly, due to the conflicts within the neighboring countries such as Syria, there are a huge number of refugees entering Jordan seeking refuge and humanitarian aid. Due to the influx of a huge number of refugees, there is a strong presence of informal businesses, which are in the main operated by refugees. According to the former Deputy Prime Minister and economic expert Dr. Jawad Anani, approximately 30 percent of Jordan's economy is "underground" due to the huge immigration activities in the country (Anani, 2014).

Importantly, as this study found that the mechanisms of corporate governance significantly affect the performance of Jordan's non-financial companies listed in the ASE, this study implies that when the mechanisms of corporate governance are properly implemented, the financial performance of companies will be improved. Thus, this improved performance will lead to an overall improvement in the economy of the country in the long-term.

Furthermore, this study implies that the presence in companies of executive turnover can be an important control instrument used by the board of directors to monitor the actions of the management team, as the study found that executive turnover can significantly moderate the relationship between the mechanisms of corporate governance and the financial performance of companies.

This study implies that the board of directors ought to use such a mechanism as a tool to provide incentive to the management team. Such types of incentives can help shareholders to maximize their wealth.

This study surprisingly finds the implementation of the mechanisms such as executive turnover and CEO-duality mechanism has not been considered previously in the Jordanian context as a powerful tool to monitor the behavior of the management team. This means, within Jordanian companies, it is the substantial shareholder who is likely to be a person appointed as both board chairman and CEO, so it does make sense if the two roles can be separated in this context.

The overall results reveal that the Jordanian non-financial companies are performing well as indicated by the financial leverage, in that a well-performing company has a financial leverage of less than one. In the case of Jordan, the mean of the value of financial leverage of the non-financial companies is less than the value of 1 and equated to 0.71. This is a good indicator for the financial performance of these companies and the rationale for this is that Jordan is an Islamic country and has certain ways in which the financial industry is governed. In accordance with the principles of *Shariah* and Islamic banking, for these companies the charging of interest is prohibited, and this is an important and sensitive matter in such companies to have compliance with the principles of *Shariah*. Therefore, the managers and investors in Jordanian companies do their best to avoid dealing with an interest rate as mentioned by Musa and Obadi (2009). The trend of financial leverage to be less than the value of 1 indicates that there is an enhancement of the financial performance of companies and thus it gives an impression of a good position of the non-financial Jordanian companies within the financial market.

The results of the present study indicate that executive turnover as an instrument of pressure is one of the drivers that can have a significant effect on the financial performance of companies. This implies that board of directors of Jordanian non-financial companies ought to consider directing their management team to initiate and implement a policy of executive turnover which can assist in spreading the concept of enhancing the wealth of shareholders leading to the ultimate goal of enhancing a company's performance.

This study has practical implications whereby shareholders can monitor the actions of the management team through the instrument of executive turnover. This instrument can assist shareholders reduce the conflict of interest between the shareholders themselves and the management team, which in turn might improve the wealth of the shareholders. Instead of using an income-based measurement, this study recommends for shareholders to use the new measurements, which are expected to be free from the manipulation of management. This could help shareholders to assess the performance of their companies in a different manner.

This study focuses on the mechanisms of corporate governance and its impact on the financial performance of Jordan's non-financial listed companies listed in the ASE in the 2011 fiscal year. This study gives a clear picture and better understanding of the mechanisms of corporate governance for managers to achieve the ultimate goal of maximizing the wealth of the shareholders. The mechanism of executive turnover, which might dominate the thoughts on a manager's mind and instead of it being a risk it can be used as an instrument to encourage them to enhance the performance of their respective company. The current study can assist policy-makers in developed and developing countries in general, and Jordan in particular to set wise and deliberate policies related to executive turnover to promote the managers' commitment toward applying the corporate governance system, which ultimately will enhance the practices of corporate governance and the performance of companies. With an improvement in the financial performance of Jordan's companies, this can ultimately lead to enhancing the economy of the country.

13. CONCLUSION

The aim of this study was to examine the effect of the mechanisms of corporate governance on the financial performance of Jordan's non-financial companies listed in the ASE by using the panel data technique. After analysis the study found the following key issues:

1. There is a negative relationship between the board size, independency of the board, and the CEO-duality with financial leverage. This implies that there is a positive relationship between such mechanisms and a firm's/company's financial performance.
2. There is a negative and significant effect of the interacting role of executive turnover with the board of directors towards financial leverage, whereas the interacting role with the independency of the board is positive and significant with financial leverage.
3. The study revealed that no interacting role in the case of CEO-duality in relation to a firm's financial performance.

This research endeavor contributes to the existing body of literature in many different ways. Firstly, it analyzes the relationship between the mechanisms of corporate governance represented by the board size, independency of the board, and CEO-duality as independent variables and a firm's performance in Jordan's non-financial companies listed in the ASE.

Secondly, the findings of this study have introduced a new perspective on the role that financial leverage plays in the discipline of performance and introduces financial leverage as a new measurement tool to examine the financial performance of companies/firms. Thirdly, for the non-financial Jordanian companies the current study indicates that the agency theory can be used to explain the role of executive turnover as a new perspective as a moderator in the relationship between the mechanisms of corporate governance and the financial performance of firms/companies in balancing the conflicts of interest between the shareholder and the management team.

REFERENCES

1. Adnan, Muhammad Akhyar, Htay, Sheila Nu Nu, Rashid, Hafiz Majdi Ab, & Meera, Ahamed Kameel Mydin. (2011). A Panel Data Analysis on the Relationship between Corporate Governance and Bank Efficiency. *Journal of Accounting, 1*(1).
2. Ahmad, Zuraidah, Abdullah, MA, & Roslan, Shashazrina. (2012). Capital Structure Effect on Firms Performance: Focusing on Consumers and Industrials Sectors on Malaysian Firms. *International Review of Business Research Papers, 8*(5), 137-155.
3. Al-Haddad, Waseem, Alzurqan, Saleh Taher, & Al_Sufy, FJ. (2011). The Effect of Corporate Governance on the Performance of Jordanian Industrial Companies: An empirical study on Amman Stock Exchange. *International Journal of Humanities and Social Science, 1*(4), 55-69.
4. Al-Hawary, Sulieman Ibraheem Shelash. (2011). The effect of banks governance on banking performance of the Jordanian commercial banks: Tobin's Q model'An applied study'. *International Research Journal of Finance & Economics*(71), 34-47.
5. Al-Khater, Khalid, & Naser, Kamal. (2003). Users' perceptions of corporate social responsibility and accountability: evidence from an emerging economy. *Managerial Auditing Journal, 18*(6/7), 538-548.
6. Al-Najjar, Basil. (2010). Corporate governance and institutional ownership: evidence from Jordan. *Corporate Governance, 10*(2), 176-190. doi: 10.1108/14720701011035693
7. Al-Qaisi, Khaldoun. (2013). The Effect of the Financial Crisis on the Jordanian Industrial Sector. *International Journal of Finance & Banking Studies (ISSN: 2147-4486), 2*(1), 43-47.
8. Al-Sakran, Sulaiman A. (2001). Leverage determinants in the absence of corporate tax system: the case of non-financial publicly traded corporations in Saudi Arabia. *Managerial Finance, 27*(10/11), 58-86.
9. Al-Shatti, Ali Sulieman. (2014). The Impact of Public Expenditures on Economic Growth in Jordan. *International Journal of Economics and Finance, 6*(10), p157.
10. Alabdullah, Tariq Tawfeeq Yousif, Yahya, Sofri, & Ramayah, Thurasamy. (2014). Corporate Governance Mechanisms and Jordanian Companies' Financial Performance. *Asian Social Science, 10*(22), p247.
11. Alqisie, Ahmad. (2014). Do Corporate Governance Indicators Lead the Firm to Adopt High/Low Level of Financial Leverage? Case of Jordan. *Journal of Management Research, 6*(3), 99-113.
12. Anani, Jawad. (2014). 3% of the Jordanian economy of which the government was not aware. Retrieved from http://www.ammanxchange.com/art.php?id=cb10249e614c47d121ce56318721004e7dbc9acd
13. Baliga, B, Moyer, R Charles, & Rao, Ramesh S. (1996). CEO duality and firm performance: what's the fuss? *Strategic Management Journal, 17*(1), 41-53.
14. Baron, Reuben M, & Kenny, David A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of personality and social psychology, 51*(6), 1173.
15. Barontini, Roberto, & Caprio, Lorenzo. (2006). The effect of family control on firm value and performance: Evidence from continental Europe. *European Financial Management, 12*(5), 689-723.
16. Baysinger, Barry D, & Butler, Henry N. (1985). Corporate governance and the board of directors: Performance effects of changes in board composition. *Journal of Law, Economics, & Organization, 1*(1), 101-124.
17. Bennedsen, Morten, Nielsen, Kasper Meisner, Pérez-González, Francisco, & Wolfenzon, Daniel. (2007). Inside the family firm: The role of families in succession decisions and performance. *The Quarterly Journal of Economics, 122*(2), 647-691.
18. Berger, Philip G, Ofek, Eli, & Yermack, David L. (1997). Managerial entrenchment and capital structure decisions. *The Journal of Finance, 52*(4), 1411-1438.
19. Bhagat, Sanjai, & Bolton, Brian. (2008). Corporate governance and firm performance. *Journal of Corporate Finance, 14*(3), 257-273. doi: 10.1016/j.jcorpfin.2008.03.006
20. Booth, James R, Cornett, Marcia Millon, & Tehranian, Hassan. (2002). Boards of directors,

ownership, and regulation. *Journal of Banking & Finance, 26*(10), 1973-1996.
21. Byrnes, Nanette, Dwyer, P, Henry, D, & Thornton, E. (2003). Reform: Who's making the grade; A performance review for CEOs, boards, analysts, and others. *Business Week*(3850), 80.
22. Chaghadari, Masood Fooladi. (2011). *Corporate Governance and Firm Performance.* Paper presented at the International Conference on Sociality and Economics Development IPEDR.
23. Chan, Kin Hang. (2009). Impact of intellectual capital on organisational performance: An empirical study of companies in the Hang Seng Index (Part 2). *The Learning Organization, 16*(1), 22-39. doi: 10.1108/09696470910927650
24. Chaney, Paul K, & Lewis, Craig M. (1998). Income smoothing and underperformance in initial public offerings. *Journal of Corporate Finance, 4*(1), 1-29.
25. Chi, Wei, & Wang, Yijiang. (2009). Ownership, performance and executive turnover in China. *Journal of Asian economics, 20*(4), 465-478.
26. Chow-Chua, Clare, Goh, Mark, & Wan, Tan Boon. (2003). Does ISO 9000 certification improve business performance? *International Journal of Quality & Reliability Management, 20*(8), 936-953. doi: 10.1108/02656710310493643
27. Chrisman, James J., Chua, Jess H., & Litz, Reginald. (2003). A unified systems perspective of family firm performance: an extension and integration. *Journal of Business Venturing, 18*(4), 467-472. doi: 10.1016/s0883-9026(03)00055-7
28. Clarke, Martin, Seng, Dyna, & Whiting, Rosalind H. (2011). Intellectual capital and firm performance in Australia. *Journal of Intellectual Capital, 12*(4), 505-530. doi: 10.1108/14691931111181706
29. Cooke, Fang Lee. (2001). Human resource strategy to improve organizational performance: a route for firms in Britain? *International Journal of Management Reviews, 3*(4), 321-339.
30. Dalton, Dan R, Daily, Catherine M, Ellstrand, Alan E, & Johnson, Jonathan L. (1998). Meta-analytic reviews of board composition, leadership structure, and financial performance. *Strategic management journal, 19*(3), 269-290.
31. Denis, Denis, Diane K, & Sarin, Atulya. (1997). Ownership structure and top executive turnover. *Journal of Financial Economics, 45*(2), 193-221.
32. Dias, Raphael Antonio Prado, Petrini, Juliana, Ferraz, José Bento Sterman, Eler, Joanir Pereira, Bueno, Rachel Santos, da Costa, Ana Luísa Lopes, et al. (2011). Multicollinearity in genetic effects for weaning weight in a beef cattle composite population. *Livestock Science, 142*(1), 188-194.
33. Dwivedi, Neeraj, & Jain, Arun Kumar. (2005). Corporate governance and performance of Indian firms: The effect of board size and ownership. *Employee Responsibilities and Rights Journal, 17*(3), 161-172.
34. Ertuğrul, İrfan, & Karakaşoğlu, Nilsen. (2009). Performance evaluation of Turkish cement firms with fuzzy analytic hierarchy process and TOPSIS methods. *Expert Systems with Applications, 36*(1), 702-715.
35. Gurunlu, Meltem, & Gursoy, Güner. (2010). The influence of foreign ownership on capital structure of non-financial firms: evidence from Istanbul Stock Exchange. *The IUP Journal of Corporate Governance, 9*(4), 21-29.
36. Hair, Joseph F. (2010). Multivariate data analysis.
37. Haniffa, Roszaini, & Hudaib, Mohammad. (2006). Corporate Governance Structure and Performance of Malaysian Listed Companies. *Journal of Business Finance <html_ent glyph="@amp;" ascii="&"/> Accounting, 33*(7-8), 1034-1062. doi: 10.1111/j.1468-5957.2006.00594.x
38. Heracleous, Loizos. (2001). What is the impact of corporate governance on organisational performance? *Corporate Governance: An International Review, 9*(3), 165-173.
39. Hooper, Vince, Sim, Ah Boon, & Uppal, Asfandyar. (2009). Governance and stock market performance. *Economic Systems, 33*(2), 93-116. doi: 10.1016/j.ecosys.2009.03.001
40. Hull, Robert M, Stretcher, Robert, & Johnson, Steve. (2011). Capital structure: professional management guidance. *Managerial Finance, 37*(8), 788-804.
41. Jackling, Beverley, & Johl, Shireenjit. (2009). Board Structure and Firm Performance: Evidence from India's Top Companies. *Corporate Governance: An International Review, 17*(4), 492-509. doi: 10.1111/j.1467-8683.2009.00760.x
42. Jensen, Michael C, & Meckling, William H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics, 3*(4), 305-360.
43. Klapper, Leora F., & Love, Inessa. (2004). Corporate governance, investor protection, and performance in emerging markets. *Journal of Corporate Finance, 10*(5), 703-728. doi: 10.1016/s0929-1199(03)00046-4
44. Lang, Larry HP, Stulz, RenéM, & Walkling, Ralph A. (1991). A test of the free cash flow hypothesis: The case of bidder returns. *Journal of Financial Economics, 29*(2), 315-335.
45. Lausten, Mette. (2002). CEO turnover, firm performance and corporate governance: empirical evidence on Danish firms. *International Journal of Industrial Organization, 20*(3), 391-414.
46. Lei, Adrian CH, & Song, Frank M. (2004). Corporate governance and firm valuations: evidence from Hong Kong. *School of Economics and Finance.*
47. Li, Sun, Lili, & Ettredge, Michael. (2010). Financial executive qualifications, financial executive turnover, and adverse SOX 404 opinions. *Journal of Accounting and Economics, 50*(1), 93-110.
48. Makhamreh, Muhsen. (2000). Corporate performance in Jordan: a study of the banking sector. *The Arab Bank Review, 2*(2), 40-48.
49. Makhlouf, Mohammed Hassan, Laili, Nur Hidayah Binti, & Basah, Mohamad Yazis Ali. (2014). BOARD OF DIRECTORS CHARACTERISTICS AND FIRMS PERFORMANCE AMONG JORDANIAN FIRMS, PROPOSING CONCEPTUAL FRAMEWORK. *Development (OECD)*, 1.
50. Marr, Bernard, & Schiuma, Gianni. (2003). Business performance measurement–past, present and future. *Management Decision, 41*(8), 680-687.
51. Mashayekhi, Bita, & Bazaz, Mohammad S. (2008). Corporate governance and firm performance in Iran. *Journal of Contemporary Accounting & Economics, 4*(2), 156-172.
52. Mehran, Hamid. (1995). Executive compensation structure, ownership, and firm performance. *Journal of financial economics, 38*(2), 163-184.
53. Mitton, Todd. (2002). A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis. *Journal of financial economics, 64*(2), 215-241.
54. Modigliani, Franco, & Miller, Merton H. (1958). The cost of capital, corporation finance and the theory of investment. *The American economic review, 48*(3), 261-297.
55. Morellec, Erwan, Nikolov, Boris, & Schürhoff, Norman. (2012). Corporate governance and capital structure dynamics. *The Journal of Finance, 67*(3), 803-848.
56. Musa, Hussam, & Obadi, Saleh M. (2009). ISLAMIC FINANCIAL SYSTEMS. *Studia Universitatis" Vasile Goldiş" Arad-Seria Ştiinţe Economice*(1-1), 124-130.

57. Omar, Bilal, & Simon, Jon. (2011). Corporate aggregate disclosure practices in Jordan. *Advances in Accounting, 27*(1), 166-186.
58. Pfeffer, Jeffrey. (1972). Size and composition of corporate boards of directors: The organization and its environment. *Administrative science quarterly*, 218-228.
59. Rachpradit, Parichart, Tang, John C. S., & Khang, Do Ba. (2012). CEO turnover and firm performance, evidence from Thailand. *Corporate Governance, 12*(2), 164-178. doi: 10.1108/14720701211214061
60. Rajoub, Samer. (2013). Amman Stock Exchange is heading towards a new cycle kinetics. 2015, from http://www.alghad.com/articles/591292-%D8%A8%D9%88%D8%B1%D8%B5%D8%A9-%D8%B9%D9%85%D8%A7%D9%86-%D8%AA%D8%AA%D8%AC%D9%87-%D9%86%D8%AD%D9%88-%D8%AF%D9%88%D8%B1%D8%A9-%D8%AD%D8%B1%D9%83%D9%8A%D8%A9-%D8%AC%D8%AF%D9%8A%D8%AF%D8%A9?s=0db7e788726c42d2c52d0039c2227649
61. Roberts, John, Sanderson, Paul, Barker, Richard, & Hendry, John. (2006). In the mirror of the market: The disciplinary effects of company/fund manager meetings. *Accounting, Organizations and Society, 31*(3), 277-294. doi: 10.1016/j.aos.2005.02.001
62. Samad, Fazilah Abdul. (2004). Corporate governance and ownership structure in the Malaysian corporate sector. *Advances in Financial Economics, 9*, 355-385.
63. Shleifer, Andrei, & Vishny, Robert W. (1997). A survey of corporate governance. *The journal of finance, 52*(2), 737-783.
64. Susser, Asher. (2011). Jordan 2011: Uneasy Lies the Head. *Brandeis University Crown Center for Middle East Studies*(52).
65. Tawfiq, Henry Azzam.). Calls for a strengthening of the Arab corporate governance systems and the separation of the positions of Chairman of the Board and Chief Executive Officer. Retrieved 14-Feb, 2015, from http://www.mafhoum.com/press4/123E19.htm
66. Topak, I, T. (2011). The Effect of Board Size on Firm Performance: Evidence from Turkey. *Middle Eastern Finance and Economics*(14), 119-127.
67. Vo, Duc Hong, & Nguyen, Tri Minh. (2014). The Impact of Corporate Governance on Firm Performance: Empirical Study in Vietnam. *International Journal of Economics and Finance, 6*(6), p1.
68. Welch. (2011). Two Common Problems in Capital Structure Research: The Financial-Debt-To-Asset Ratio and Issuing Activity Versus Leverage Changes. *International Review of Finance, 11*(1), 1-17. doi: 10.1111/j.1468-2443.2010.01125.x
69. Wen, Yu, Rwegasira, Kami, & Bilderbeek, Jan. (2002). Corporate governance and capital structure decisions of the Chinese listed firms. *Corporate Governance: An International Review, 10*, 75-83.
70. Westphal, James D, & Zajac, Edward J. (1995). Who shall govern? CEO/board power, demographic similarity, and new director selection. *Administrative science quarterly*, 60-83.
71. World Economic Forum. (2008-2012). Report. 2012, from www.weforum.org/
72. Yermack, David. (1996). Higher market valuation of companies with a small board of directors. *Journal of financial economics, 40*(2), 185-211.