New Ideas from Management, Finance and Accounting Perspective: The Research for A New Link Between A Company's Outcome and Risk Management

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Abstract

The aim of the current study is to introduce a new idea to be added to the literature review in the accounting and management discipline's previous work through creating some new trends to be contemporary compared with the previous ones. To be a new study, including new ideas compared to existing studies, it investigates the relationship between independent and dependent variables; independent managers in the board of directors and risk management committee, and their impact on companies' outcome represented by accounting management measurements ROA and ROE, and company outcome represented by market share. The present study utilized the multiple regression as a method to analyze and deal with available data for Jordanian industrial companies listed in Amman Stock Exchange for the ended year 2017. Unlike the majority of the prior work, the present work unexpectedly found an insignificant relationship in the link between independent managers and company's outcome represented by ROE and market share. On the other hand, risk management committee has a positive and significant relationship with both ROE and market share. Therefore, Government of Jordan with other related parties should take in their account formulation of policies for the importance of risk management existence.

Captivatingly, from developed and developing nation viewpoint, the present study is the first of its type that solely chose independent variables in their relationship with companies' outcome represented by market share, where there is no prior work that investigated risk management as an independent variable in this relationship with market share. Thereupon, to the best of our knowledge, no other works especially in the emerging countries have examined this link particularly from the risk management perspective in its relation with companies' outcome. This new insight of this link created by the present study offers useful evidence that introduces remarkable value to several parties, such as academics, scholars, government, policy makers and additional stakeholders.

Keywords: Independent manager; Risk management committee; companies' outcome;

emerging nations

Introduction

The attention to internal control mechanisms and their practice in the organizations have developed speedily and therefore the implementation and adoption of such mechanisms is expected to the benefit the shareholders. This can equal effectiveness controlling of a company's' activities especially when transparency, disclosure principles and risk management committee are adopted. Accordingly, by utilizing and implementing internal control mechanisms in companies, this positively affects the investors; the current and the potential investors, from one hand, and the companies outcome from the other (Alabdullah, 2016, 2016, 2016, 2018; Alabdullah, Laadjal, Ahmed, & Al-Asadi, 2018; Alabdullah, Nor, & Ries, 2018; Alabdullah, Yahya, Nor, & Majeed, 2016; Alabdullah, Yahya, & Ramayah, 2014). The collapse and financial disasters of large companies in developed and developing countries, for instance Enron and WorldCom and the awareness of such disasters has led to the fact that several parties including the investors have to become aware of companies that are not dealing with internal and safeguarding mechanisms. This globally required from researchers to participate in introducing new ideas in the field of management, accounting and finance to deal with the control mechanisms and outcome of the companies (Alabdullah, 2016, 2018) from new perspective in order to mitigate the consequences of global crises if they occur and this represents the gap that needs to be filled by scholars, researchers and other interested parties.

Therefore, this study significantly attempts to contribute internationally to bridging this gap, where there is a global growing tendency of the value of internal control mechanisms for a company's success, specifically several countries and institutions have issued recommendations to practice such mechanisms. Moreover, several internal control mechanisms are considered as extension to the principles of agency theory that for a long time have been tried to find a solution for the eternal conflict between the agent and the principal. Thus, to focus on such mechanisms from new perspective is an attempt to limit the effect of global crisis, if any, from one hand, and to enhance the outcome/ performance of the companies on the other.

Prior studies, for example Kren and Kerr (1997), revealed that increased use of internal control mechanisms promotes the outcome of companies. In the past few years, there have been wave of studies in developed economies that dealt with this issue for the important effect on the company's outcome. Nevertheless, a little awareness in the developing economies has been given to such issue, especially in Jordan (Alabdullah, 2018).

The present study applies its new ideas in Jordanian context to add the knowledge to the existent literature and to fill the gap as mentioned above and the justification in choosing this country lies in several reasons: Firstly, previous studies admit that non-financial companies' outcome (both industrial and service companies) has faced several problems due to the instability in the region and this led to dependence on remittances, high level of unemployment and continued pressure on natural resources. Secondly, there is a lack in performance of industrial companies, therefore, Jordan has faced social and business challenges with a marked weakness in the internal economic (Alabdullah, 2016, 2018; Alabdullah et al., 2018; Alabdullah et al., 2018).

The main objective of the current study is to contribute outstandingly to enriching the body of knowledge in the accounting, management and finance discipline by investigating the link between internal control mechanisms and company's financial outcome in both developing and developed countries, particularly in Jordan. Therefore, it contributes significantly to the literature in several ways. First of all, there is no prior work that selected market share as a firm performance measurement in both developed and developing countries, including Jordan. Second of all, there is a gap in the results of prior work that dealt with examining internal control mechanisms and company outcome, which is inconsistent. Some of them found that the link is negative, and others found it positive, while the rest found there is no link between them.

Further, there has recently been an argument globally in research on control mechanisms, particularly on the topic in which we have paid attention in our study, that is the link between the formulation of the board and company's outcome (Bhagat &

Bolton, 2008; Jackling & Johl, 2009; Judge, Naoumova, & Koutzevol, 2003; O'Connell & Cramer, 2010).

One would suppose to find a clear link between such essential parts; nonetheless, as mentioned by Nicholson and Kiel (2007) that the relationship between the two essential investigated ideas is still not obviously identified, thus it leads us to pursue to continue an in-depth research.

Thus, this calls for the necessity from the scholars and researchers including our research to test another independent variable with market share, where the latter represents company outcome (firm performance). Globally, previous studies have considered market share as growth indicators except two studies done in Jordan: Alabdullah, Yahya, and Ramayah (2014) and Alabdullah (2018), they consider it as company's performance (outcome), noting, both of them didn't investigate market share in its link with risk management adoption. Accordingly, risk management committee adoption in its link with market share is the new link used by the present study which has never been tested before in the literature review.

Based on above, from developed and developing economies viewpoint, this study is the first of its type that solely chose the risk management in its link with market share as indicator of company outcome, where no prior work has investigated risk management in such link. In that, the present study is the first work in developing economies to investigate such a link. Such novel insights on this link by present study offer useful information that is of great value to the policy makers, academics, and other stakeholders.

The sample of the present work deals with 65 industrial companies whose 2017 annual reports are available in Amman Stock Exchange (ASE) website.

The internal control mechanisms selected in the present study are independent manager in the board of directors and risk management committee to investigate their link with company outcome (performance) which lies in management accounting measurements; ROA and ROE, and market share.

The remainder of this study is structured in the subsequent way. Section 2 reviews briefly the link between internal mechanisms selected in the current work and company outcome, which represents the previous studies that dealt with mechanism selected in the current study and their impact on company outcome as argued in the literature review and further to formulate the research hypotheses. Section 3 deals with methodology. This is followed by Section 4 that shows the data analysis and results and discussion. Finally, Section 5 will represent the conclusion and recommendations of the study.

Literature Review and Research Hypotheses

Internal control mechanisms are tools which could be used to solve the problems arising from incompatibility and conflict of interests between owners and management. The owners seek manners in which to ensure the management handles their wealth to accomplish their interest.

Independent managers in the board and company's outcome

In the previous studies, literature proposes that the independent board in the board of directors is given effectiveness to the board and this may help reduce and alleviate agency problems by controlling the opportunistic behavior of the managers (Alabdullah et al., 2014; Haniffa & Hudaib, 2006).

Empirical studies such as (Alabdullah, 2018; Alabdullah, Yahya, Nor, & Majeed, 2016; Ashbaugh-Skaife, Collins, & Kinney Jr, 2007; Hill, 1988; Kumar & Singh, 2013; Rosenstraus, Wang, Chang, DeBonville, & Spadoro, 1998) tested the link between independent managers in the board of directors and company's outcome and the results were inconsistent.

Several previous studies find that independent managers' factor is not considered to be a significant variable that affects the level of company's outcome (Adnan, Htay, Rashid, & Meera, 2011; Kajola, 2008; Yermack, 1996).

Along the same lines, other works in the previous studies such as (Alabdullah et al., 2014; Bhagat & Black, 2002) reveal that there is no link between independent managers existence and company's outcome.

On the other hand, (Klein, 1998) finds that such relationship has a negative impact on company's outcome. Nonetheless, the trends in the literature review admit that independent managers builds up strength through the independency of the board giving effectiveness and facilitation in monitoring the company and enhancing the competition of the company executive directors which finally maximizes and promotes company's outcome (Fama & Jensen, 1983; Tornyeva & Wereko, 2012).

Based on this discussion following the literature, the current study developed the following hypotheses:

H1 (INED): There is a positive link between independent managers in the board and company outcome.

Beside the background of the collapse of companies, the existence of risk management committee has been considered as one of the important roles of the board of directors.

H2 (RMC): There is a positive link between risk management committee and company outcome.

Methods Methodology Sample and data collection

The data sample for the present study was initially obtained from the industrial companies listed on the Amman Stock Exchange (ASE). Initially, the number of companies listed in 2017 were 65. Financial companies were excluded from the sample of the present study because of their different accounting structure that leads to difficulty calculating the financial ratios used in the present study and following literature review of the previous authors' example in such type of analysis (Alabdullah et al., 2014; Alabdullah, 2016).

Multi-variable regression model

The models of this present work included particular variables, with the independent managers and risk management committee that have possible impact on company outcome; in other words, such variables might influence their ROA, ROE, and market share. To examine the relationship between independent managers and risk management committee, and company outcome in one of the developing countries, namely Jordan, a cross sectional study was adopted through real data collected from the annual reports for the fiscal year 2017. The linear regression analysis was utilized to examine the effect between the interpreted and predicted variables. The models of the present work are defined by the following equations:

(1)

$$ROA = \alpha + \beta_1 IEND + B_2 RMC + B_3 Fsize + \varepsilon$$

(2)

$$ROE = \alpha + \beta_1 IEND + B_2 RMC + B3Fsize + \varepsilon$$

(3)

$$MarketShar\ e = \alpha + \beta_1 IEND + B_2 RMC + B3Fsize + \varepsilon$$

To assess the company outcome, we used three company's outcome ratios: ROA, ROE and Market Share following, among others, Alabdullah et al. (2018), Alabdullah et al. (2018) or Alabdullah (2018). The ROA (Return on Assets) variable is measured as the percentage of net income to total assets. The ROE (Return on Equity) variable is measured as a percentage of net income to common equity. Market Share is measured as net sales divided by the total sales of the industry, while the control variable in the current study that is firm size is measured as a natural logarithmic of the company's total assets. For risk management committee, it is measured as a dummy variable of 1 if a company set up a risk management committee, and 0 if otherwise (Yatim, 2010). Independent managers are measured as outside director equity to the number of outside directors appointed to the board (Alabdullah et al., 2018).

Data Analysis and Results Descriptive Analysis

The descriptive analysis of the present study of the chosen variables is provided for 65 industrial companies belonging to non-financial sector listed at Amman Stock Exchange, using mean, standard deviation, minimum, and maximum. It is explained in Table 1.

The results revealed that the research sample is normally distributed because the kurtosis and skewness are within accepted range value of normality. As mentioned by Alabdullah et al. (2014) that the normal distributed data is achieved in case that standard kurtosis is within ±3 and standard skewness ±1.96 as shown in Table 1.

Table 1: Descriptive Analysis

Variables	Mean	Std. Dev	Minimum	Maximum	Skewness	Kurtosis
ROA	**3.096**	**1.390**	**-1. 100**	**6.980**	**0.097**	**0.914**
ROE	4.805	4.184	0.000	12.100	0.348	-1.277
Market Share	0.515	0.274	0.079	0.910	0.980	-1.043
INED	0.320	0.323	0.000	1.000	0.758	-0.781
RMC	0.430	0.499	0.000	1.00	0.286	-1.980
Fsize	7.119	0.936	4.080	8.960	-0.835	1.021

Correlation Analysis

The Correlation Analysis between IVs and DVs variables is shown in Table 2. It clarifies that independent variable (independent managers).

Table 3 shows the correlation between dependent and independent variables. It demonstrates that independent variable (RMC) has a positive relationship with Market Share with value (RMC .772). The Table shows that board size (RMC) has a positive relationship with (ROE) with value .273. It also reveals that RMC has a highly positive relationship with Market Share with a value of 0. 772.

Table 2: Correlation test

	INED	RMC	Fsize	ROA	ROE	Market Share
INED	1					
RMC	-0.059	1				
Fsize	0.226	-0.121	1			
ROA	0.079	0.028	0.224	1		
ROE	-0.059	0.273*	-0.236	0.316*	1	
Market Share	-0.129	0.772**	-0.278*	0.022	0.211	1

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

Multiple Regression Analysis

The present work adopted the regression analysis to test the direction of the link between the independent and dependent variables, a common statistical way which was used in numerous science disciplines (Alabdullah, 2016).

Regression Results of Model 1

Based on a company outcome measured by ROA, the equation of Model 1 is defined by the following:

$$ROA = \alpha + \beta_1 IEND + B_2 RMC + B_3 Fsize + \varepsilon$$

Nonetheless, the current study will not reveal details regarding this model due to the results of ANOVA test. The model is insignificant with significance value of 0.227.

Regression Results of Model 2

Based on a firm performance measured by the ROE for the present research, Model 2 can be identified by the following equation:

$$ROE = \alpha + \beta_1 IEND + B_2 RMC + B3Fsize + \varepsilon$$

Table 3 below shows the results of regression revealing that the R square value is 0.116 for ROA. This indicates that the value of R square explains 11 percent of the independent variables (RMC and Market Share) on the dependent one of ROA.

Table 3: Regression Results for ROE

Model	ROE
R Square	0. 116
Sig F Change	0.133

In Table 4, the analysis of regression was run between all the variables of the present study represented by the independent variables and the dependent variable of ROE. The results reveal that Risk Management Committee (RMC) has a positive relationship with ROE (RMC β=.248). However, the independent managers (INED) has an insignificant relationship with the ROE (INED; β =.002).

Table 4: Regression analysis for ROE

ROE			
Variables	Beta	t- value	Sig.
INED	0.002	0.018	0.985
RMC	0.248	2.043	0.045

Note: (1) Level of significance **p < 0.05, ***p < 0.01
(2) the results of the coefficients are Standardized

For this study, the testing of the hypotheses for Model 2 regarding the relationship between the two independent variables and the dependent ones is shown in Table 4. The current study hypothesized that there is a positive and significant relationship between the independent managers in the board of directors (IEND) and the ROE. The present study found there is an insignificant positive effect in the relationship between (IEND) and the ROE (β = 0.002, T-value= 0.018, P< 0.1). This shows that a company outcome is not influenced by the independent managers in the board of directors of the industrial companies listed in Jordan. This result is in line with the previous study done by (Alabdullah et al., 2016). They found the same insignificant result. The reason for such results is that the majority of the independent managers are government retirees working in Jordanian listed companies. Therefore, H1 (There is a positive link between independent managers in the board and company outcome) is not supported. Conversely, there is a significant positive effect in the link between RMC and the ROE (β = 0.248, T-value= 2.043, P< 0.1). This means that the company outcome represented by (ROE) is influenced by existence of risk management committee in industrial companies listed at ASE. Thus, H2 (There is a positive link between risk management committee and company outcome) is supported.

Regression Results of Model 3

Based on a firm performance measured by the Market Share for the present research, Model 3 can be identified by the following equation:

$$MarketShar\ e = \alpha + \beta_1 IEND + B_2 RMC + B3 Fsize + \varepsilon$$

Table 5 below shows the results of regression that the R square value is 0.632 for Market Share. This reveals that the value of R square explains 63 percent of the independent variables (RMC and Market Share) on the dependent one of Market Share.

Table 5: Regression Results for Market Share

Model	**ROA**
R Square	0. 632
Sig F Change	0.000

In Table 6, the analysis of regression was run between all the variables of the current study represented by the independent variables and the dependent variable of Market Share. The results reveal that Risk management committee (RMC) has a positive relationship with Market Share (RMC β=.748). However, the independent managers (INED) has an insignificant relationship with the ROE (INED; β = -.045).

Table 6: Regression analysis for Market Share

ROE

Variables	Beta	t- value	Sig.
INED	-0.045	-0.559	0.578
RMC	0.748	9.549	0.000

Note: (1) Level of significance $**p < 0.05$, $***p < 0.01$

(2) Results of the coefficients are Standardized

For this study, the testing of the hypotheses for Model 3 regarding the relationship between the two independent variables and the dependent ones is shown in Table 6. The present work hypothesized that there is a positive and significant relationship between the independent managers in the board of directors (IEND) and the Market Share. The present study found there is an insignificant positive effect in the relationship between (IEND) and the Market Share (β = -0.045, T-value= -0.559, P< 0.1). This result confirms the findings that appeared in the previous model (Model 2; ROE) that a company outcome is not influenced by the independent managers in the board of directors of the industrial companies listed in Jordan. Thus, hypothesis H3 (There is a positive link between risk management committee and company outcome) is not supported. Conversely, there is a significant positive effect in the link between RMC and the Market Share (β = 0.748, T-value= 9.549, P< 0.1). This means that the company outcome represented by (Market Share) is influenced by existence of risk management committee in industrial companies listed at ASE. Thus, H2 (There is a positive link between risk management committee and company outcome) is supported.

Conclusion and Recommendations

The business world has faced a number of failures at the level of all sectors such as Arthur Andersen and Marconi and Enron. For both developed and developing countries for such failures and others have led to giving great attention to several parties that dealt with corporations which have not got a good level of internal control mechanisms, which is a confusing matter.

Several studies dealt with the link between internal control mechanisms and company outcome. However, there have been a little number of empirical studies that take in their consideration the investigation of such relationship through using new ideas in Management, Finance and Accounting from a new perspective. The current study uniquely investigated a new link between a company's outcome represented by market share and risk management in dealing with industrial Jordanian listed companies.

The results suggest that there is a positive relationship between risk management and company outcome with its measurement: market share. However, there was no relationship between independent managers and company outcome, with its measurement: ROE. The present study recommended the future studies to investigate such variables with service companies listed at ASE as it also belongs to non-financial sector, in addition to investigating it in the companies belonging to one of the developed counties as well.

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