THE ROLE OF EXECUTIVE TURNOVER AS A MODERATOR IN DETERMINING CORPORATE PERFORMANCE AND FINANCIAL LEVERAGE IN JORDAN

By

TARIQ TAWFEEQ YOUSIF ALABDULLAH

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DEDICATION

This thesis, in a way or another, is a reflection and translation of prayers, love, cares, sacrifices, inspiration, and moral support, by most valued assets blessed by Allah the Almighty. Thus, this special and humble dedication comes sincerely from the bottom of my heart to these special persons.

To my beloved parents, may Allah Almighty prolong my mother’s life with health and wellness. Amen!. May Allah give me the time and power to recoup and repay to her; no words could precisely express and describe how grateful I am to her. In addition, may Allah grant my father the highest place in the paradise.

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ABSTRAK

Dalam beberapa dekad yang lalu, tadbir urus korporat menjadi kunci utama kepada firma dan prestasi mereka. Dalam konteks Jordan, Bursa Saham Amman (Amman Stock Exchange, ASE) telah melakukan beberapa perubahan dari segi peraturan / regulasi melalui pengeluaran mekanisme tadbir urus korporat pada tahun 2009. Namun demikian, disebabkan prestasi yang tidak begitu baik dalam sektor industri dan perkhidmatan, menyebabkan Jordan terpaksa berdepan dengan beberapa cabaran, antaranya ekonomi dalaman, perniagaan dan sosial, di samping krisis kewangan global, yang memaksa mereka mengambil tindakan drastik dalam usaha mengenal pasti faktor utama yang mempengaruhi prestasi firma. Kajian ini bermatlamat mengkaji kesan daripada mekanisme tadbir urus korporat terhadap prestasi kewangan yang berkaitan dengan peranan penyederhana bagi pusing-ganti eksekutif. (executive turnover) Suatu model konseptual, iaitu teori agensi dibangunkan dan diuji menggunakan data rentas silang daripada 109 buah syarikat. Kajian menggunakan laporan tahunan bagi tahun fiskal 2011 daripada firma Jordan yang paling aktif. Analisis regresi berbilang dijalankan untuk menguji hipotesis menggunakan perisian SPSS versi 20. Dapatan menunjukkan bahawa dualiti lembaga bebas dan CEO tidak mempunyai kesan yang signifikan terhadap leveraj kewangan (financial leverage). Selanjutnya, saiz lembaga dan pemilikan pengurusan mempunyai kesan yang negatif terhadap leveraj kewangan Sebagai tambahan, dualiti CEO dan pemilikan pengurusan tidak mempunyai kesan yang signifikan

terhadap saham pasaran. Sebaliknya, saiz lembaga dan pemilikan asing, mempunyai kesan yang negatif terhadap saham pasaran. Berdasarkan teori, kajian ini menyumbang terhadap literaturr perakaunan dan pengurusan dengan memperkenal serta menggerakkan petunjuk atau indikator kewangan yang unik, iaitu leveraj kewangan dan sahan pasaran bagi mengukur prestasi firma dalam konteks kajian. Selanjutnya, kajian juga menunjukkan peranan penyederhana pusing-balik eksekutif dan konseptualisasi dalam konteks kajian, yang sebelum ini tidak diikhtiraf dalam penyelidikan tadbir urus korporat. Sesungguhnya, keputusan yang signifikan adalah untuk menyederhana kesan teori agensi, termasuk dua pihak utama, iaitu pemegang taruh (stakeholder) dan pengurus. Dari sudut metodologi, persamaan yang digunakan dalam kajian semasa mampu mengira leveraj kewangan yang berbeza, dibandingkan dengan kajian terdahulu. Hakikatnya, ia menggunakan kaedah pengiraan bagi memenuhi objektif kajian semasa.untuk mengelak manipulasi pelicinan pendapatan (income smoothing manipulation), yang mungkin digunakan oleh pasukan pengurusan. Keputusan mencadangkan keperluan untuk mengeluarkan dasar yang tepat berhubung dengan peranan pusing-balik eksekutif, di samping mengambil kira dua petunjuk baru untuk mengukur prestasi firma selain daripada manipulasi.

THE ROLE OF EXECUTIVE TURNOVER AS A MODERATOR IN DETERMINING CORPORATE PERFORMANCE AND FINANCIAL LEVERAGE IN JORDAN

ABSTRACT

In the last few decades, corporate governance has increasingly become a key hurdle to the firms and their performance. In Jordanian context, Amman Stock Exchange (ASE) has made several changes in terms of regulations through issuing corporate governance mechanism in 2009. However, due to the poor performance in the industrial and service sectors, Jordan has faced several internal economic, business and social challenges besides the global financial crisis, which call for the emergence of identifying key factors influencing the firm's performance. The current study aimed at examining the effect of corporate governance mechanism on financial performance concerning the moderating role of executive turnover. Building on agency theory, a conceptual model is developed and tested using the cross sectional data from the 109 companies. The study used the annual reports for the fiscal year 2011 of the most active Jordanian firms. Multiple regression analyses were conducted to test the hypotheses using SPSS software version 20. The findings show that the independent board and CEO duality have no significant effect on financial leverage. Furthermore, board size and managerial ownership have a negative effect while foreign ownership has a positive effect on financial leverage. Additionally, CEO duality and managerial ownership have no significant effect on market share, whereas the board size and foreign ownership have a negative effect on market share. From the theoretical standpoint, the study contributes to the accounting and management literature by introducing and operationalizing unique financial indicators, i.e. financial leverage and market share, in order to measure firm's

performance in the context of the study. Moreover, the study reveals the moderating role of executive turnover and its conceptualization in the context study, which previously was not recognized in the corporate governance research. Indeed, the significant result in relation to the moderating effect extends the agency theory including its two main parties, i.e. shareholders and managers. From the methodological point of view, the equation used by the current study is able to compute the financial leverage in a different way as compared to that of the previous studies. In fact, it uses a method of calculation serving the objective of the current study to avoid income smoothing manipulation that might be used by the management teams. The results suggest the need for issuing the precise policies regarding to the role of executive turnover and taking into account the two new indicators to measure firm's performance apart from manipulations.

CHAPTER 1
INTRODUCTION

1.0 Introduction

This chapter provides an overview of the current study and deals with the following topics: background of the study, problem statement, research questions, research objective, significance of the study, definitions of terms, organization of the remainder of the study, and finally a summary of the chapter.

1.1 Background of the Study

The manufacturing industry has played a key role for both developed and developing countries in seeking to get a good and distinctive economy. It is an important issue gaining worldwide attention, approval, and acceptance due to its significant portion of the Gross Domestic Product (GDP) and also it has important portion to employing the workforce and creating welfare of a nation (Havas, 2009; Hitomi, 2004). Such an industry should be given more attention, especially in light of the emerging and escalating competition in the whole world. This established a real need for finding better manufacturing industrial companies which eventually have positive impact on the global international growth (Rao & Wang, 1993). For example, in Asia, specifically in Japan, Hitomi (2004) demonstrates that although Japan is a small country with population equal to 3% of the world, but it is characterized by its international strong economy. He mentions that in 2001 Japan ranked second due to her GDP being $4144 billion which was equal to the world's 14%, while US was in the first top economy (GDP was $10,206 as a portion of the world which represented 30%). However, Japan has made more progress than US, where her per capita GDP was higher than the per capita of U.S.'s GDP. The overall conclusion indicated by Hitomi's study was that the reason for creating wealth of Japanese nation goes back to the manufacturing industry. In the same regard, Ueda, Takenaka, and Fujita (2008) assert the viewpoint of Hitomi (2004) by giving also an example (Japan), that the industrial countries strive to maintaining and giving more attention to their manufacturing industry due to the significant and important effect on such an industry to enhancement and embodiment of the competitive advantage. Although the world has been witnessing big development in industrialized nations, it seems that several studies have focused on the service sector (which is also an important sector) under the justification that the Jordanian market represented 70% derived from service sector (Amman Stock Exchange, 2008).

Barakat and Saif (2010) argue that the manufacturing sector in Jordan is the highly significant concerning its contribution to the GDP at basic prices. As regard to other sectors, the manufacturing sector has increased from 18.4 to 21.3% throughout 2003–2006. This sector has been playing a very important role in upgrading growth in Jordan over the mentioned years (2003-2006). They demonstrate that according to (Amman Stock Exchange, 2003-2006) the significant role of manufacturing sector concerning its contribution to the GDP referred to in Fig.1. They also illustrate the key indicators for this sector which occurred for the period 2003–2006 (Amman Stock Exchange, 2006).

Table 1.1
Key indicators of the industrial sector 2003–2006

Main indicators of the industrial sector 2003–2006	2003	2004	2005	2006
Value added at current prices (JD million)	1274.7	1544.0	1790.7	2045.3
Growth rate at constant prices (%)	2.1	14.2	9.7	8.6
Deflator of the industrial sector (1994=100)	109.2	115.8	122.4	128.7
Industrial exports (JD million)	1518.4	2105.7	2295.2	2606.7
Domestic exports excluding agricultural exports				
Mining and Quarrying and manufacturing industrial production quantity index	116.2	130.1	143.5	151.0
Number of registered industrial companies	704	981	1,125	1,425
Capital of registered industrial companies (JD million)	20.9	111	87.9	176.4
Outstanding credit facilities extended by licensed banks (JD million)	879.4	973	1038.1	1135.9
Outstanding credit facilities extended by the IDB (JD million)	76.7	62.2	80.6	108.2

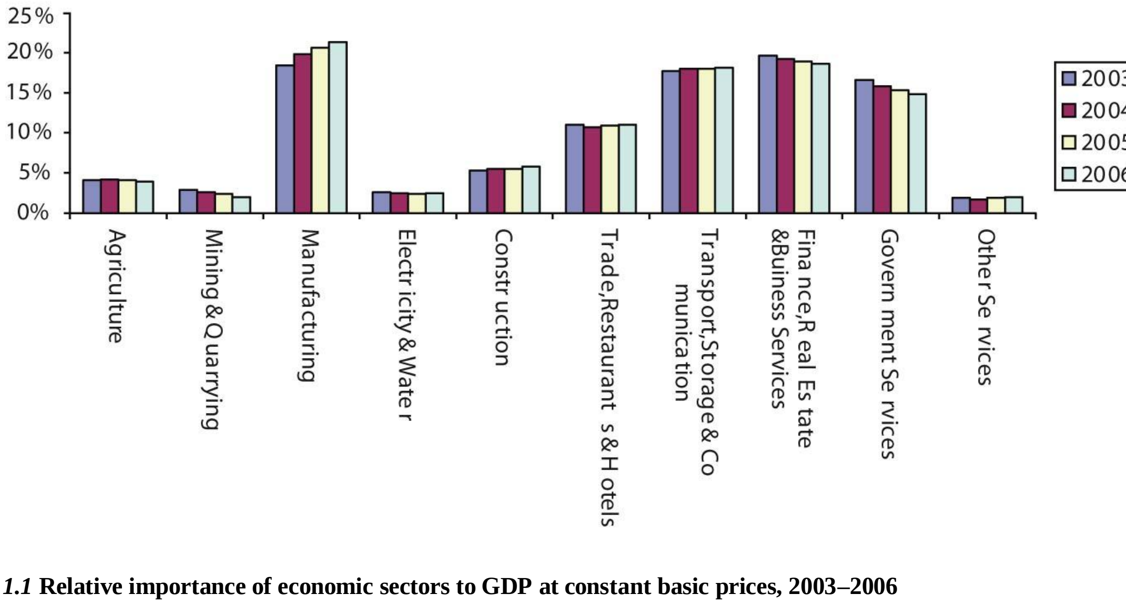

Figure 1.1 **Relative importance of economic sectors to GDP at constant basic prices, 2003–2006**

Despite the importance illustrated above about the Jordan context and the significant role played by manufacturing sector in both developed and developing countries, Jordanian industrial sector nevertheless suffered from problems on its performance specifically in the years 2006, 2007 and 2008. Such a setback started before the global financial crisis as mentioned by Al-Qaisi's study. Al-Qaisi (2013) lights up at the lack of performance facing the companies that belong to industrial sector. He admits that Jordanian industrial sector during the period 2000-2008 had faced problems in its performance though the performance was better until the end of 2005.He argues that during the years 2006, 2007and 2008, industrial sector declined and faced setback and this seems clear through the performance indicators used in his study. He depended on an objective measure to realize such observed decline. The performance measurement of return on assets (ROA) showed drop from 192.03 in the years (2000-2005) to 33.7 in the years (2006-2008), which means that the effectiveness of assets to create profit in the years 2006, 2007, 2008 was extremely weak in such a way that it dropped to the third and not as its status in the years 2002, 2003, 2004, 2005. Consequently, in the years (2006, 2007, 2008) it shows that not all the available capacity of assets have been used optimally or at least in a good way. This is due to the lack and shortfall of liquidity in the industrial companies.

On the other hand, there is a considerable role of service sector expressed by its composition rate of profit in the market where was equal to 72% of Jordanian market in 2008 according to the report of Amman Stock Exchange (2008) and also its contribution to GDP according to the report of being equal to 66% compared to the low percentage of industrial sector 27% in 2009 (Amman Stock Exchange, 2009) Table 1.2. Thus, the attention should be given also to the service sector because according to the reports published by Amman Stock Exchange (2005-2009) shown in Table 1.3, it seems the performance computed by ROA and ROE is unsteady and unstable as well as there is a decline in the performance in such a sector. This should be taken into consideration by researchers to deal with service sector to solve its performance problems and moreover to have promoting performance to such important sectors.

Table 1.2
Gross Domestic Product by Sectors

Sectors	GDP (%)
Services Sectors	67.4
industrial Sector	27.3
Other Sectors (e.g., Agriculture)	5.3

Source: Amman Stock Exchange Report, 2009

Table 1.3
Performance Indicators of Jordanian Sectors during the Years, 2005-2009

		2005 (%)	2006 (%)	2007 (%)	2008 (%)	2009 (%)
Services Sector	**ROA**	**6.7**	**4.5**	**4.9**	**5.6**	**5.4**
	ROE	**11.4**	**6.9**	**7.9**	**9.6**	**9.1**

Source: Amman Stock Exchange Report, 2005-2009

Additionally, according to what was published by World Economic Forum (2008-2012) which issues its annual reports since 1979 to demonstrate degrees of economic competition between participating countries, these reports adopt systematic clear basics to include countries in its overall index represented by the ability of these countries to present quantitative and qualitative data required to calculate ranks of the participating countries. In these annual reports, the Global Competitiveness Index show that in the last few years, Jordan showed a decline in economic competition from year to year. In 2008-2009, it was ranked 48; and in 2009-2010 report, Jordan ranked 50, but in 2010-2011, decline in economy level was remarkable, in that Jordan retreated 15 ranks to have the 65th rank. In 2011-2012 report, it also declined to get the 71th rank. This decline is another indication on the existence of problems which led to low economic performance in Jordan.

Based on what was presented above, globally, non financial sector has been considered as important seeking to get a good/ distinctive economy. It is important because of its significant portion of the GDP and its important role to employing the workforce and creating welfare. However, in Jordanian context, Jordan economy has faced several problems such as decline, unemployment and increasing of refugee population since 2008 (World Bank, 2014). One of the reasons of such problems is that the non financial sector in Jordan has faced problems since the last few years starting from 2005 as mentioned by (Al qisie, 2013; Amman Stock exchange). Moreover, with recent update of World Bank indicators, these problems and others are shown clearly in both industrial and service sectors (the non financial Jordanian sector).

According to the The World Bank (2014), the manufacturing share in GDP has faced gradual decline from 2007 until 2011, while the booming period clearly appeared before 2007 as explained in *Figure 1.2* and *Figure 1.3*. The same situation of declining for the service value added is shown in *Figure 1.4*.

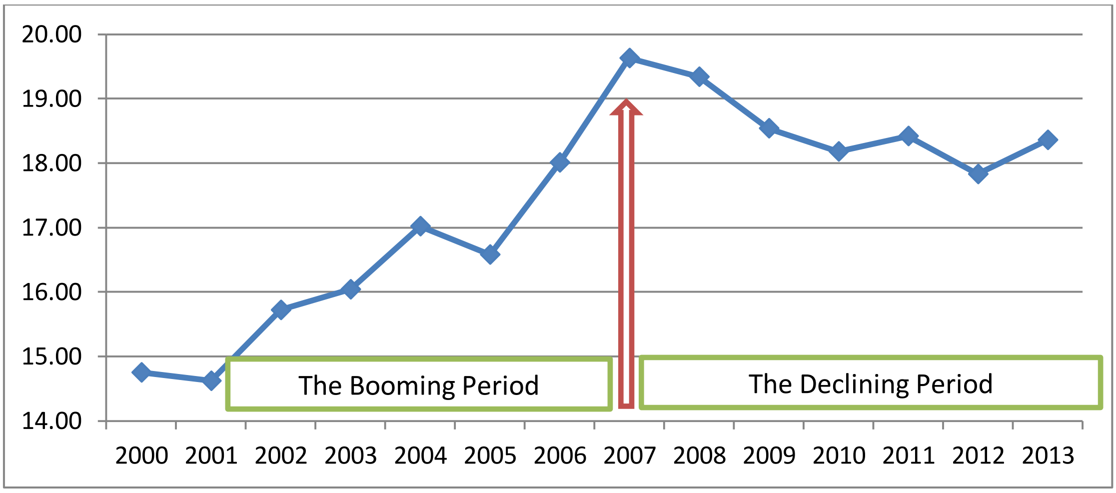

Figure 1.2 **Manufacturing Share in GDP**

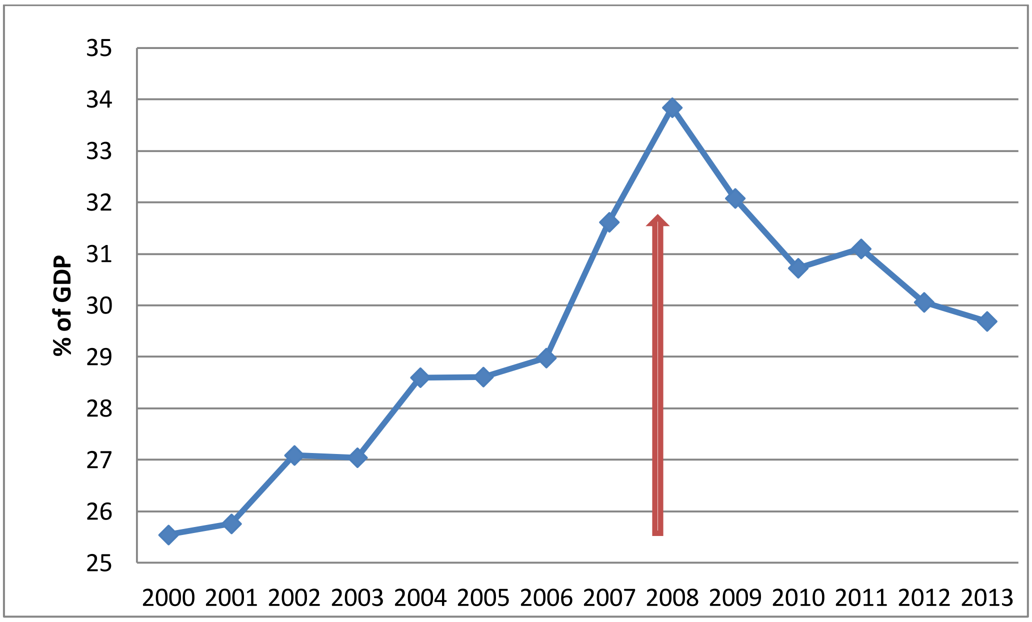

Figure 1.3 **Industry Value Add (%) of GDP**

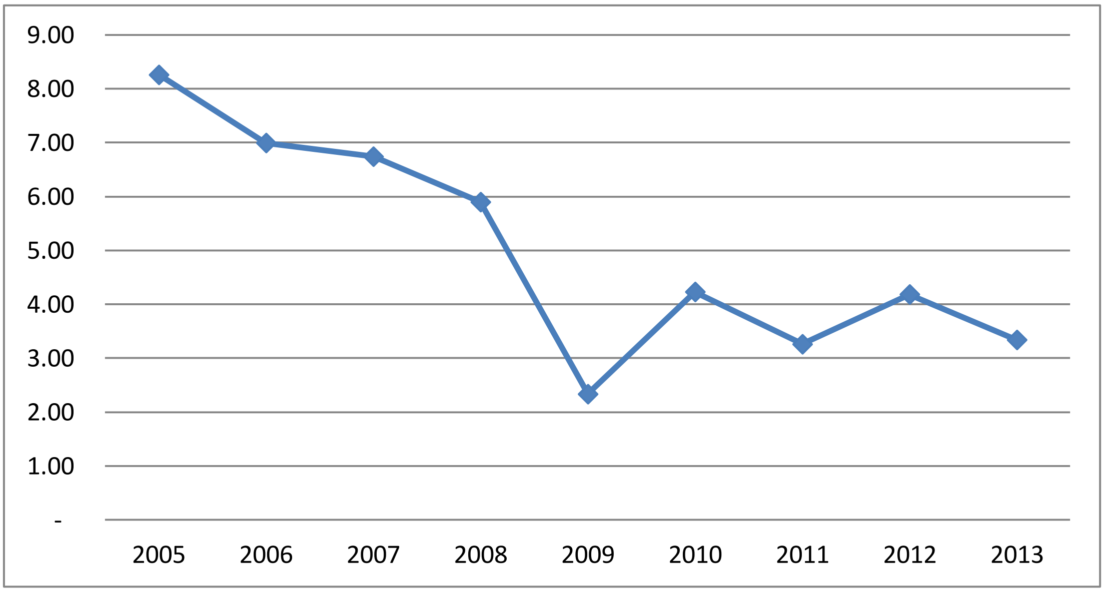

Figure 1.4 **Service Value Added (annual % growth)**

Moreover, it was mentioned in the World Development Indicators that Jordan economic development faced several problems regarding GDP growth, GDP per capita growth, gross savings, foreign investments, Unemployment and Refugee population (The World Bank, 2014), for more detail see: *Figure 1.5*, *Figure 1.6* and *Figure 1.7*

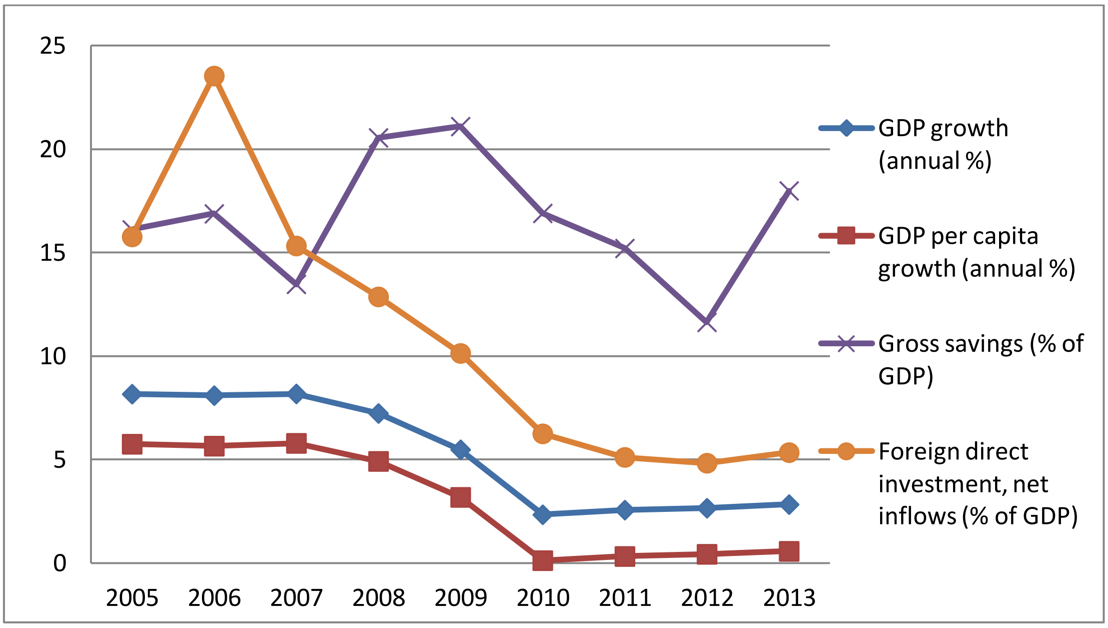

Figure 1.5 **Some Economic Development Indicators of Jordan**

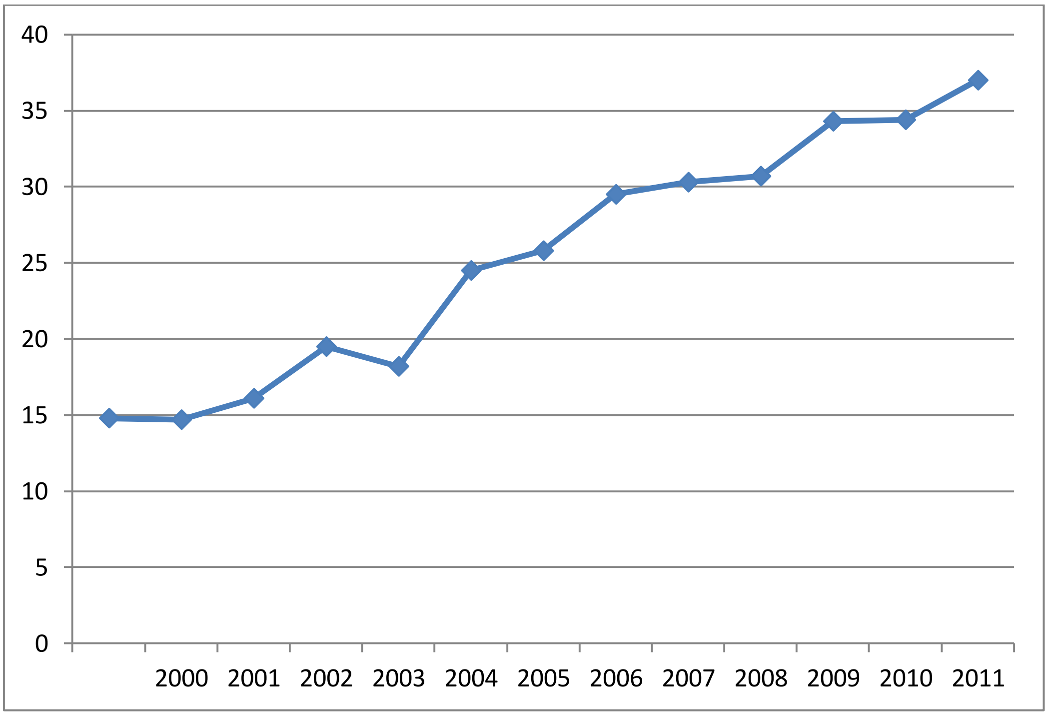

Figure 1.6 **Unemployment with Tertiary Education (% of Total Unemployment)**

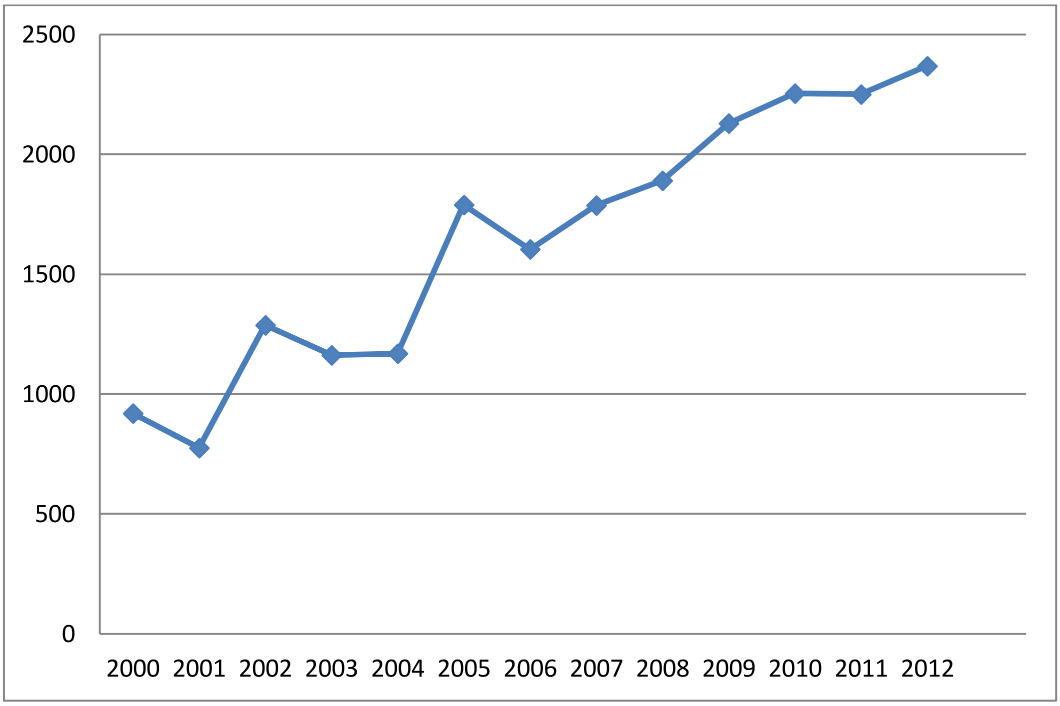

Figure 1.7 **Refugee Population by Country or Territory of Origin**

Based on above, the Jordanian government and Amman Stock Exchange in particular should put in their consideration the remedy to deal with such problems that faced the non financial sector in Jordan to eventually recover Jordanian economy. Globally, corporate governance is considered as a good control system used by international and local levels as an effective remedy to address poor firm performance and enhance firm value. Thus, through relying on corporate governance system, this would achieve improvement in the declining of Jordanian non-financial sector as a key to find a lasting solution for the declining in the Jordan economy in the long run. Therefore, the present research is considered as a response to call for a new research that aimed at examining the relationship between corporate governance mechanism and firm performance in the non-financial sector in Jordan.

The present study investigates the relationship between corporate governance mechanisms represented by board size, independent board, CEO duality, and firm performance in light of executive turnover as a moderator variable for the fiscal year 2011. The current study chooses this year because as shown in World Development Indicators that issued by World Bank (2014), this year is considered as the intersection point between decline and recovery period. *Figure 1.8, Figure 1.9* and *Figure 1.10* illustrated that 2011 is an intersection point between decline and recovery period in Jordan context.

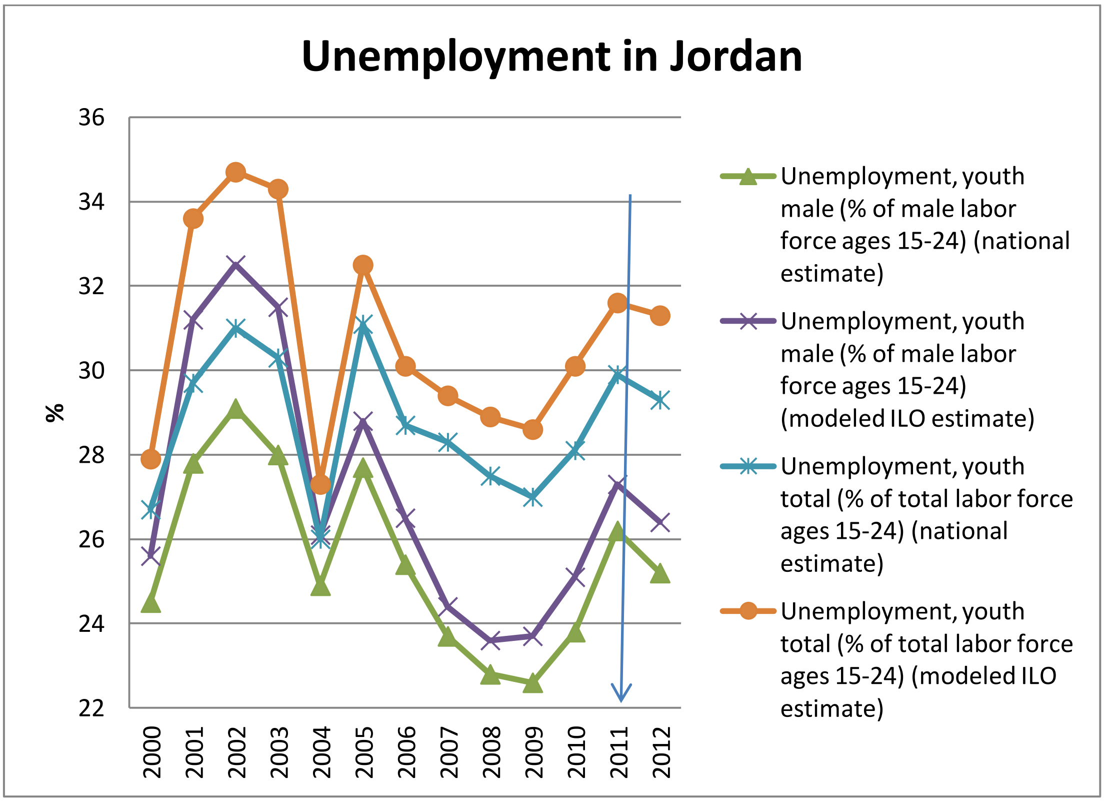

Figure 1.8 **Unemployment in Jordan**

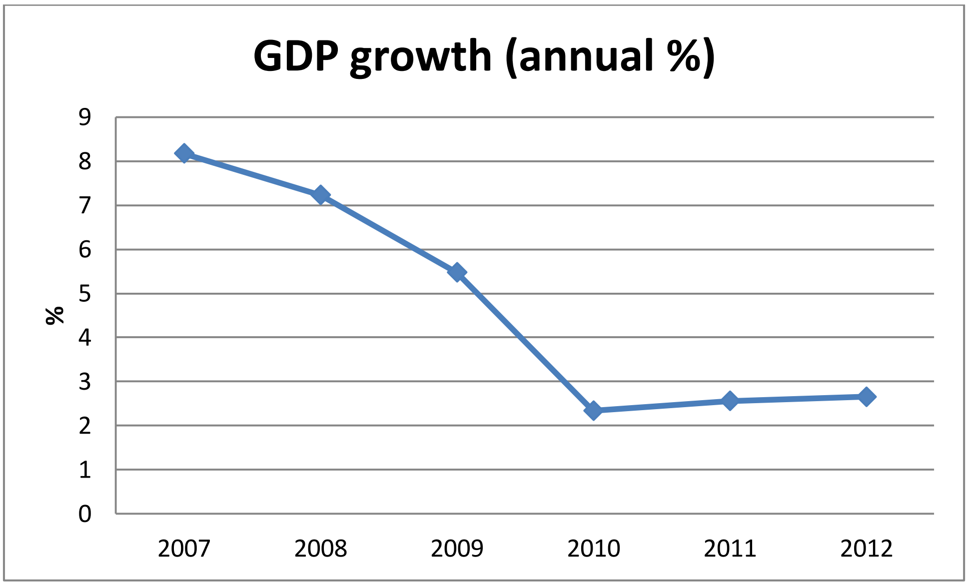

Figure 1.9 **GDP growth**

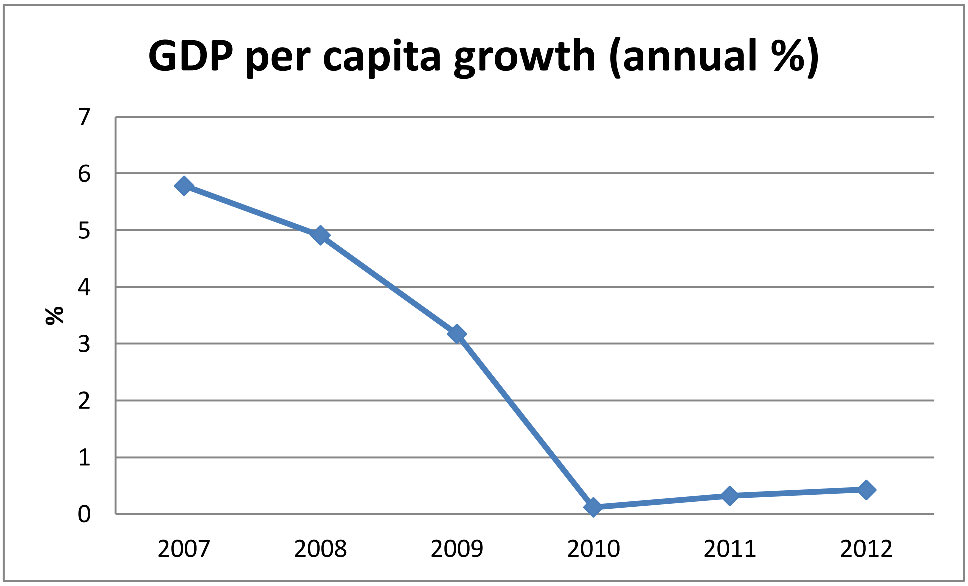

Figure 1.10 **GDP per capita growth**

Based on above, this study will deal with the performance of industrial and service sectors through focusing on corporate governance system. That system shall be characterized by solid mechanisms and principles which affect performance of industrial and service companies listed at Amman Stock Exchange (ASE). Previous studies Bawaneh (2011), Al-Haddad, Alzurqan, and Al_Sufy (2011) and Al-Najjar (2010) have admitted that the conducted empirical studies on corporate governance in emerging countries and in Jordan in particular are inadequate and limited. Thus, this study will focus on the role and impact of the corporate governance on Jordanian industrial and service sectors' performance to enhance inadequate literature in such country.

On top of that, this study excluded Jordanian financial sector from its sample because as mentioned by Jordan Securities Commission that corporate governance code in Jordan has applied the same rules on corporation related to industrial and service sectors, while different rules have been applied in financial ones, especially the rules related to shareholding companies listed in (ASE), where the first CG Code was published in 2009 as mentioned by (Abed, Al-Attar, & Suwaidan, 2012) and

(Makhlouf, Laili, & Basah, 2014). Another reason is that several previous studies conducted in Jordan context have excluded companies belonging to Jordanian financial sector from their sample due to the fact that such companies must be driven to some disclosure requirements imposed and enacted by International Accounting Standard No. 30 (see Al-Akra, Eddie, & Ali, 2010; Al-Akra & Hutchinson, 2012; Alkhatib & Marji, 2012; Naser, Al-Khatib, & Karbhari, 2002).

Moreover, another justification in so doing is the study via Fama and French (1992) which ruled out the financial companies and used the non financial ones. They argue that the reason behind this choice is due to using leverage indicator variable, being explanatory for security returns, leading to different results in measuring both sectors. This leads to difficulties of using such indicator. In that, there will be diversities in the level of measurement of leverage, where for the companies belonging to financial sector it will be high, while for the non-financial it will be normal, bearing in mind that the financial leverage indicator is going to be used in the current study.

Accordingly, this study will take into consideration choosing industrial and service companies. This choice, however, promotes the development in Jordan as recommended by Rawabdeh (2008) who advocates that researchers' strive toward promoting the role of industrial and service sectors leading to achievement of high progress and development in Jordan.

Number of serious issues has appeared in the local and global level such as increasing competition, rapid progress of manufacturing technology, and the successive global crises being an alarm of the real danger of collapse threatening the economies of countries (AbuGhazaleh, Qasim, & Haddad, 2012). All have contributed to increasing the interest of corporate governance system which have mostly been considered as a solution in which it has important effect on the performance of the corporation and other industries in the wide world (Brown & Caylor, 2006; Cucculelli & Micucci, 2008; DeFond & Park, 1999; Dwivedi & Jain, 2005; Mangena & Chamisa, 2008), in particular, in the Jordanian context and its industrial and service companies (Abdullah & Valentine, 2009; Abu-Tapanjeh, 2006; Al-Akra & Hutchinson, 2012; Al-Haddad et al., 2011; Al-Hawary, 2011; Al-Najjar, 2010; Alkhatib & Marji, 2012; Barakat & Saif, 2010; Bawaneh, 2011). Accordingly, in light of these influential issues, the industrial and service companies should be competitive to face high competition and other serious issues (Gebauer, Gustafsson, & Witell, 2011; Munizu, 2011; Weerawardena & McColl-Kennedy, 2002), especially within Jordanian' industrial and service companies context which are in a dire need to evaluate and investigate the drawbacks in their performance just like the rest of the other competitive countries (Al-Haddad et al., 2011; Bawaneh, 2011; Rawabdeh, 2002), through focusing on the best practices of corporate governance as precise system to enhance and achieve better performance for the corporation within emerging economies, in particular in Jordanian corporation (Abed et al., 2012; Al-Haddad et al., 2011; Jaafar & El-Shawa, 2009). 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) regarding the problem that appeared due to the separation matter between ownership and management (Jensen & Meckling, 1976). Firm performance depends on the precision of such relationship. Roberts, Sanderson, Barker, and Hendry (2006) argue that Corporate Governance appeared and was affected by the agency theory and its hypotheses. As postulated by (Abdullah & Valentine, 2009) and (Awotundun, Kehinde, & Somoye, 2011) the logical description of corporate governance, from philosophical perspective, is a theory within an intellectual framework originated from a group of series of theories such as agency theory.

Corporate governance has increasingly become a very important issue to the corporation and its performance, specifically in the last three decades, and even more recently, it has witnessed many scandals and failures in several corporations such as financial crisis 1997 and Clearstream Banking and Bank of Credit and Commerce International (Khanchel, 2007; Setiawan & Phua, 2013). Such scandals and others such as Enron and Arthur Andersen and Marconi have brought about a shock for both developed and developing economies and given so much attention to the investors and other stakeholders to beware of dealing with corporations having low level of corporate governance (Duke II, Kankpang, & Okonkwo; Okpara, 2011). Moreover, the crises that occurred in the United States and throughout the world have led to increased research by the academics and even the policy makers (see Blanchard, 2008; Dodd & Mills, 2008). The current research is focusing on the performance of the industrial and service companies and their internal corporate governance mechanisms practiced in one of the emerging countries in the Middle East, namely Jordan. Jordan is considered as a key country in the Middle East which occupies a strategic, political and economic position in the region because it is located in the centre of the region. Geographically, Jordan is located in the south west Asia. Jordan is bordered by Iraq, Syria, Palestine and Saudi Arabia (Naser, 1998).

According to Fan (2004), Corporate Governance is concerned with how to prepare the structure, procedures and mechanisms by which activities of a firm are managed, in that to maximize the shareholder worth through responsibility of managers and consolidating firm performance. Chen, Chen, and Wei (2009) argue that recently the empirical evidence in the literature supports the notion that corporate governance limits agency cost, leading to reinforce the viewpoint: the better the CG, the more improved the performance and the higher the firm value.

Good corporate governance is aimed to promote the firm value and its performance through using the mechanisms of corporate governance which are designed for the purpose of reducing agency costs arising from the separation of ownership and control (Chen et al., 2009; Duke II, Kankpang, & Okonkwo, 2012; Fama & Jensen, 1983; Fama, 1980; Jensen & Meckling, 1976; Weir, Laing, & McKnight, 2002). Such costs arise when there are differences in interest between stockholders and managers (Hillier, Ross, Westerfield, Jaffe, & Jordan, 2010). Agency problem is dealing with the wealth expropriation, whereas the latter has multiple forms like asset stripping, overpaying executives, diversion of corporate opportunities from the firm, and transfer pricing (Brickley & James, 1987; Jensen & Meckling, 1976).

Several studies in the literature (see, for example, Firth, Fung, & Rui, 2006; Shleifer & Vishny, 1997; Weir et al., 2002) demonstrate that corporate governance mechanisms can be divided into two groups: internal and external. They explain that there are two essential internal mechanisms for corporate governance, structure of the board of directors and ownership structure. They mention that the important external mechanism is market control for corporation. In the emerging economies, market control is weak; due to this weakness, the internal mechanisms of corporate governance have a key role in corporate governance in such economies (Al-Hawary, 2011; Khanna & Palepu, 2000; Lei & Song, 2004). In addition to the important elements of board's attributes, the structure of ownership is supposed to have an impact on the resulting decision made by the management and consequently on firm performance. Several researchers confirm such an issue (Ali, Salleh, & Hassan, 2008; Demsetz & Villalonga, 2001; Kapopoulos & Lazaretou, 2007; Lemmon & Lins, 2003; Warfield, Wild, & Wild, 1995); they suppose that the ownership structure in the firm is a main determinant which alleviates the agency problems taking place between management and shareholders. Thus, the internal mechanisms of corporate governance represented by board of directors' characteristics and ownership structure are examined in this study.

Previous studies, dealing with internal mechanisms of corporate governance and performance as relationship, have concentrated extensively on using agency theory to support and develop their hypotheses (Abdullah & Valentine, 2009; Arosa, Iturralde, & Maseda, 2010; Weir et al., 2002). In this study, the major concern is to investigate the relationship between corporate governance mechanisms and firm financial performance based on the important role of the board of directors in monitoring the management with support of other important internal mechanisms (Fama & Jensen, 1983; Fama, 1980; Li & Qian, 2011). Due to agency theory and its potential problems from agents represented by managers, having independent outside directors in board of directors, small size of board of directors, the leadership independence , and separation of the CEO duality are expected to provide the best both in monitoring and protection of shareholders' wealth (Kang & Shivdasani, 1995, 1996).

A substantial body of literature on the firm performance/value providing empirical evidence has been published over the past few decades (see Barontini & Caprio, 2006; Bennedsen, Nielsen, Pérez-González, & Wolfenzon, 2007; Chrisman, Chua, & Litz, 2003; Clarke, Seng, & Whiting, 2011; Cui & Mak, 2002; García-Ramos & García-Olalla, 2011; Hiraki, Inoue, Ito, Kuroki, & Masuda, 2003; Jensen &

Meckling, 1976; Makhamreh, 2000; Mazzanti, Pini, & Tortia, 2006). What stands out in the literatures dealing with performance/value and its relationship with corporate governance system is the multiplicity of views which lead to different results obtained from this relationship. Some of literature stream, done in different parts of the world, supports the notion that corporate governance is crucial, positive, and significant in its relationship with firm performance.

Based on previous studies dealing with the relationship between corporate governance and firm performance, findings seemed different; some of which led to positive results, and others were mixed: negative and positive, influential and not influential from some mechanisms other than other mechanisms on firm performance. Maybe a third variable will affect this relationship, contributing to other mixed results.

Baron and Kenny (1986), Frazier, Tix, and Barron (2004), and Holmbeck (1997) demonstrate that when the relationship between independent variable and dependent variable is poor or inconsistent, the moderators variable can be established in such a case to explain when or for whom 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 independent and dependent variables. This study will investigate the role of executive turnover as a moderator variable on the relationship between corporate governance and firm performance. In so doing, this study fills an international gap regarding what has been done in the previous studies, through choosing executive turnover as a moderator variable on the relationship between CG and firm performance. No previous study chose this variable as a moderator in such a relationship. Executive turnover and its potential occurrence represent the risk inherent in the mind of executives; in that they may lose their work, or their position might be changed. This sort of imagination with executive managers is the instrument which enhances both corporate governance principles and them to be active and flexible. In support of this viewpoint with respect to this important variable, Lausten (2002) and Rachpradit, Tang, and Khang (2012) demonstrate that the probability of turnover that may face executive managers is an encouragement as well as a threat that stimulates them to line up their welfare to those of stockholders. That means the threats of possible occurrence of executive turnover buildup the principles and mechanisms of corporate governance related to shareholders and executives because the managers' efforts will be toward the stockholders enhancement and then lead to good firm performance. In the same vein to such importance, Li, Sun, and Ettredge (2010) believe that; because the responsibility is eventually borne by the executives in promoting firm’s performance, the executive turnover should have its important role and impact to enhancement firm performance.

Thus, the validity of choosing executive turnover as a moderator is quite acceptable, and agreed with the condition of choosing moderator variable stated by Baron and Kenny (1986) with totally identical viewpoint by (Holmbeck, 1997) as they demonstrate that a variable that could be chosen as moderator should be interacted with independent variable and consequently have an effect on the dependent ones. Such characteristics and features must be existing in the appropriate chosen moderator variable. Baron and Kenny (1986) confirm that the moderator variable is the one that plays an essential role to direct or strengthen the relationship between the independent and dependent variables, and it has also the ability of explaining such relationship.

Based on above, the current study believes that the executive turnover as moderator variable may strong the relationship between CG and firm performance. Accordingly, this study can be considered as a response to calls for new research into the interface between CG and firm performance studies (Al-Haddad et al., 2011; Al-Najjar, 2010; Bawaneh, 2011).

In the current study, the central argument is that CG principles and mechanisms usage is more likely to positively lead to enhancement and higher firm performance in case of the existence for executive turnover. This is because good CG is likely to provide good mechanisms based on the selected internal mechanisms represented by CG characteristic including board of directors and ownership structure. Accordingly, the current study anticipated that executive turnover would moderate the relationship between CG and firm performance. Following the above discussion, the current study aims to contribute to the body of accounting and management knowledge from the perspective of developed and developing countries, and in Jordan as a selected country where the study will be applied.

1.2 Problem Statement

Based on the discussion in the previous section and the literature review that dealt with the relationship between corporate governance and firm performance, clear importance is shown about the effect of corporate governance on firm performance.

Nevertheless, despite the importance related to firm performance in reflecting the effectiveness of corporate governance mechanisms application (Dwivedi & Jain, 2005), still there is a dire need to deal with measurement of firm performance from a new perspective. Therefore, researchers need to focus on important and influential issues associated with their firm's financial performance measurement. This issue lies in giving attention to the critical issue that is the presence or absence of income smoothing in net income where net income might be smoothed by management and might lead to misleading results. This issue is so important because many studies are based on financial measurements such as ROA , ROE, and Tobin's Q in measuring their firm's financial performance (see Al-Hawary, 2011; Amran & Che-Ahmad, 2009; Bai, Liu, Lu, Song, & Zhang, 2004; Bauer, Guenster, & Otten, 2004; Bozec & Bozec, 2011; Chaghadari, 2011; Dimara, Skuras, Tsekouras, & Goutsos, 2004; Durnev & Kim, 2005; Gompers, Ishii, & Metrick, 2003; Ibrahim, Rehman, & Raoof, 2010; Kajola, 2008; Klapper & Love, 2004; Mashayekhi & Bazaz, 2008; Toledo, 2010; Topak, 2011) and all these measurements include either net income or total assets. Thus, this may lead to the possibility of those measurements, being profitability measurements, to be included with income smoothing which consequently leads to unrealistic picture of performance. Firm performance has increasingly become a very important issue by the scholars and researchers due to its positive effect on enhancing the economy by solving its social-economic problems and eliminating unemployment (Cooke, 2001).

In the context of Jordan economy, there are several problems. One of the economic problems is that Jordanian economy has been declining for the last five years as demonstrated by World Economic Forum (2008-2012) due to poor performance of the industrial and service sectors as mentioned by Al-Qaisi (2013) and the report issued by Amman Stock Exchange (2005-2009). Furthermore, another economic problem in Jordanian economy is that Jordanian economy has suffered from high rate of unemployment because recently Jordan has received a huge number of migrants, who were displaced to Jordan (Al-Shatti, 2014; Anani, 2014; Susser, 2011). In addition, as mentioned by Al-Khater and Naser (2003) and Rajoub

(2013), Jordan is suffering from several business problems. First, disclosure is not widely used in Jordanian companies therefore Jordanian companies lack transparency and information disclosure that has its negative effects on the practices of corporate governance. Second, there is a volatile return and high risk in the companies listed at Amman Stock Exchange. Third, there is huge speculation in Jordan, wherein speculators control the market for the interest of the big shareholders; and fourth, the Jordanian businesses are just developing and they are not mature enough compared to the businesses in the developed countries and this will lead to weak practices of corporate governance system.

Another drawback and shortcoming in most of previous studies is represented by using traditional methods in measuring financial performance such as ROA, ROE, etc, while the modern contemporary trends should focus on and test other measurements. According to what has been argued by Marr and Schiuma (2003) they demonstrate that despite the extensive trends towards measurement of firm performance that have been studied by several researchers in the literature and used so many new approaches for firm performance measurement, yet the discipline of firm performance measurement still needs more deliberations and contributions to recover and overcome the lack in firm performance's measurements. Thus, here is another problem represented by a lack and scarcity in the empirical evidence of previous studies about providing a new measurement tool in measuring firm performance.

These theoretical and practical issues call for the attention of this study to introduce new firm financial performance related measurements. For the dependent variable of the current study, financial leverage measurement is a measurement of risk used by several previous studies. This measurement is considered by the current study as one of financial performance measurements as admitted by Samad (2004) and Griffin and Mahon (1997), and market share as a measurement of firm financial performance. Moreover, the current study introduced the executive turnover as a moderator variable on the relationship between corporate governance mechanisms and firm financial performance. The current study will investigate financial leverage measurement to avoid problems, confusion and being misled which may result from practices of income smoothing behavior. Due to that, the net income might or might not be smoothed which eventually may affect performance measurements; in that, this study will depend on financial leverage indicator which computes, as mentioned by Lang, Stulz, and Walkling (1991), Omar and Simon (2011), and Welch (2011) as total debts to owners' equity (capital). In the same vein, Al-Sakran (2001) shows that financial leverage is a total debt to capital (debt/capital). In addition, the present study will use, for the first time, market share as a new measurement to measure firm financial performance, which also services the purpose of avoiding income smoothing manipulation.

The theoretical problem in the current study lies in the existence of an international gap in both developed and developing countries resulting from the diversities in the findings of previous studies that dealt with the relationship between corporate governance being an independent variable and firm performance as a dependent one, whereas all countries are applying the same system within their economic environment; in that, the current study is intended to fill such a universal gap by investigating the role of executive turnover as a moderator variable on such relationship and testing uniquely two new measurements to represent firm financial performance.

Given more attention by previous studies to financial measurement to investigate the relationship between CG mechanisms and firm performance without testing new variables, will reduce the importance of their results in non-access to clear intellectual and theoretical formulation to express the relationship between CG and firm performance affected by application environment to the level of governance.

In Jordan context, particularly in the Jordanian service and industrial sectors, no previous study has explored the relationship between corporate governance internal mechanisms (board of directors and ownership structure and firm performance (financial leverage) and market share. Thus, the current study tries to address such a gap through investigating the relation between CG and firm performance of Jordanian service and industrial sector. In addition, the current study aims to investigate executive turnover as a moderator variable for the relationship between CG and firm performance. Note that, executive turnover is the instrument which may enhance both corporate governance and firm performance; in that, executive turnover will necessitate on the board of directors in the compliance and implementation of corporate governance toward firm performance enhancement.

In view of that, the current study addresses the following questions: what is the relationship between corporate governance mechanisms and firm financial performance of Jordanian industrial and service firms? Does executive turnover moderate the relationship between corporate governance mechanisms and firm financial performance? Based on what was presented above, this study will systematically investigate the relationship between corporate governance mechanisms and firm financial performance in light of executive turnover as a moderator variable in the Jordanian listed companies at Amman Stock Exchange.

1.3 Research Questions

Based on the problem statement, the current study tries to investigate the relationship between corporate governance mechanisms and financial performance in the Jordanian industrial and service sector, and addresses the following questions:

1. What is the relationship between corporate governance mechanisms and firm financial leverage?
2. What is the relationship between corporate governance mechanisms and firm market share?
3. Does the executive turnover play the moderating role in the relationship between corporate governance mechanisms and firm financial leverage?
4. Does the executive turnover play the moderating role in the relationship between corporate governance mechanisms and firm market share?

1.4 Research Objectives

To answer research questions, the current study has set the following objectives:

1. To investigate the relationship between the corporate governance mechanisms and financial leverage of Jordanian industrial and service firms.
2. To investigate the relationship between the corporate governance mechanisms and market share of Jordanian industrial and service firms.
3. To investigate the role of executive turnover as a moderator variable on the relationship between corporate governance mechanisms and financial leverage of Jordanian industrial and service firms.