

**CORPORATE GOVERNANCE AND FIRM
PERFORMANCE: THE MODERATING ROLE OF
CHIEF EXECUTIVE OFFICER POWER
IN JORDAN**

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by

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TABLE OF CONTENTS

ACKNOWLEDGEMENT	ii
TABLE OF CONTENTS	iv
LIST OF TABLES	xii
LIST OF FIGURES	xiv
LIST OF ABBREVIATIONS	xv
LIST OF APPENDICES	xvi
ABSTRAK	xvii
ABSTRACT	xix
CHAPTER 1 INTRODUCTION	1
1.1 Introduction.....	1
1.2 Background of the Study	2
1.3 Jordanian Market	10
1.4 Problem Statement	13
1.5 Research Objectives	20
1.6 Research Questions	21
1.7 Significance of the Study	22
1.7.1 Theoretical Contribution	23
1.7.2 Practical Contributions.....	24
1.8 Scope of the Study	25
1.9 Definition of Key Terms	26
1.9.1 Firm's Performance (FP)	26
1.9.2 Corporate Governance	26
1.9.2(a) Board of Director's Size	26
1.9.2(b) Board of Directors' Independence.....	27
1.9.2(c) Board of Directors' Financial Expertise.....	27

1.9.2(d)	Audit Committee Size	27
1.9.2(e)	Audit Committee Independence	27
1.9.2(f)	Audit Committee Expertise	27
1.9.2(g)	Audit Committee Interlocks	28
1.9.2(h)	Risk Management Committee Size	28
1.9.2(i)	Risk Management Committee Independence	28
1.9.2(j)	Risk Management Committee Overlapping	28
1.9.2(k)	Family Ownership	28
1.9.2(l)	Arab Foreign Ownership	29
1.9.2(m)	CEO Power	29
1.10	Organization of the Study	29
CHAPTER 2 LITERATURE REVIEW		31
2.1	Introduction	31
2.2	Firm Performance	31
2.3	Corporate Governance in Jordan	37
2.4	Board of Directors	40
2.4.1	Board of Directors' Size	41
2.4.2	Board of Directors' Independence	43
2.4.3	Board of Directors' Financial Expertise	45
2.5	Audit Committee	47
2.5.1	Audit Committee Size	49
2.5.2	Audit Committee Independence	51
2.5.3	Audit Committee Financial Expertise	53
2.5.4	Audit Committee Interlocks	54
2.6	Risk Management Committee	56
2.6.1	Risk Management Committee Size	58
2.6.2	Risk Management Committee Independence	60

2.6.3	Risk Management Committee Overlapping.....	62
2.7	Family Ownership.....	63
2.8	Arab-Foreign Ownership	67
2.9	CEO Power as a Moderator	69
2.10	Control Variable.....	74
2.10.1	Firm Size	75
2.10.2	Firm Age	76
2.10.3	Type of Sector	77
2.10.4	Dividend Per Share	77
2.11	Underpinning Theories	78
2.11.1	Agency Theory.....	78
2.11.1(a)	Corporate Governance and Firm Performance.....	80
2.11.1(b)	CEO Power.....	81
2.11.2	Resource Dependence Theory	82
2.11.2(a)	Audit Committee Interlocks and Firm Performance.....	83
2.12	Literature Gaps.....	84
2.13	Theoretical Framework.....	86
2.14	Hypotheses Development	90
2.14.1	Board of Director’s Size and Firm Performance	90
2.14.2	Board of Directors’ Independence and Firm Performance	91
2.14.3	Board of Directors’ Financial Expertise and Firm Performance	93
2.14.4	Audit Committee Size and Firm Performance.....	95
2.14.5	Audit Committee Independence and Firm Performance.....	97
2.14.6	Audit Committee Financial Expertise and Firm Performance	99
2.14.7	Audit Committee Interlocks and Firm Performance.....	101
2.14.8	Risk Management Committee Size and Firm Performance.....	103

2.14.9	Risk Management Committee Independence and Firm Performance	105
2.14.10	Risk Management Overlapping and Firm Performance	108
2.14.11	Family Ownership and Firm Performance.....	110
2.14.12	Arab-Foreign Ownership and Firm Performance	112
2.14.13	CEO Power as a Moderator	114
2.14.13(a)	Board of Directors, CEO Power and Firm Performance.....	116
2.14.13(b)	Audit Committee, CEO Power and Firm Performance.....	117
2.14.13(c)	Risk Management Committee, CEO Power and Firm Performance	119
2.15	Chapter Summary	120
CHAPTER 3 RESEARCH METHODOLOGY		122
3.1	Introduction.....	122
3.2	Research Philosophy	122
3.3	Research Approaches	125
3.4	Research Design.....	125
3.5	Sampling Design	127
3.5.1	Population	127
3.5.2	Unit of Analysis	128
3.5.3	Sampling Frame	128
3.5.4	Sampling Technique	129
3.5.5	Sample Size.....	129
3.6	Source of Data Collection	130
3.7	Time Horizon	130
3.8	Operationalisation and Measurement of Variables	131
3.8.1	Dependent Variable Measurement.....	131
3.8.2	Measurement of Independent.....	133

3.8.2(a)	Board of Director’s Size	133
3.8.2(b)	Board of Directors’ Independence.....	133
3.8.2(c)	Board of Directors’ Financial Expertise.....	134
3.8.2(d)	Audit Committee Size	134
3.8.2(e)	Audit Committee Independence	134
3.8.2(f)	Audit Committee Expertise	135
3.8.2(g)	Audit Committee Interlocks	135
3.8.2(h)	Risk Management Committee Size	135
3.8.2(i)	Risk Management Committee Independence	135
3.8.2(j)	Risk Management Committee Overlapping	136
3.8.2(k)	Family Ownership	136
3.8.2(l)	Arab Foreign Ownership	137
3.8.3	Measurement of Moderator Variable	137
3.8.4	Measurement of Control Variables	138
3.8.4(a)	Firm Size	138
3.8.4(b)	Firm Age.....	139
3.8.4(c)	Type of Sector	139
3.8.4(d)	Dividend Per Share.....	140
3.9	Panel Data	140
3.9.1	Random Effects Model	141
3.9.2	Fixed Effects Model.....	141
3.9.3	Breusch-Pagan Lagrange Multiplier (LM)	142
3.9.4	Hausman Specification Test.....	142
3.10	Diagnostic Tests.....	143
3.10.1	Outliers.....	143
3.10.2	Normality	144
3.10.3	Linearity.....	145

3.10.4	Multicollinearity	146
3.10.5	Autocorrelation	147
3.10.6	Heteroskedasticity	148
3.10.7	Robust Standard Error	149
3.10.8	Contemporaneous Correlation	149
3.11	Model of the Study	150
3.11.1	Multivariate Regression Analysis	150
3.11.2	Moderator Hierarchical Regression	151
3.12	Chapter Summary	153
CHAPTER 4 RESULTS		154
4.1	Introduction	154
4.2	Sample and Data Collection	154
4.3	Descriptive Statistics	155
4.4	Diagnostic Tests	159
4.4.1	Outliers	159
4.4.2	Normality	160
4.4.3	Linearity	160
4.4.1	Multicollinearity	161
4.4.2	Autocorrelation	165
4.4.3	Heteroskedasticity	165
4.4.4	Contemporaneous Correlation	166
4.5	Multivariate Regression	167
4.5.1	Corporate Governance Mechanisms and Firm Performance	167
4.5.1(a)	Board of Directors' Characteristics	169
4.5.1(b)	Audit Committee Characteristics	170
4.5.1(c)	Risk Management Committee Characteristics:	171
4.5.1(d)	Family Ownership	172

4.5.1(e)	Arab Foreign Ownership	172
4.5.1(f)	Control Variables.....	173
4.6	Hierarchical Regression	173
4.7	Robustness Checks.....	181
4.7.1	Corporate Governance Effectiveness and Firm Performance	181
4.7.1(a)	Board of Directors’ Effectiveness and Firm Performance.....	183
4.7.1(b)	Audit Committee Effectiveness and Firm Performance.....	184
4.7.1(c)	Risk Management Committee Effectiveness and Firm Performance	185
4.7.2	Corporate Governance, Firm Performance and CEO Power	186
4.7.3	Without Control Variables	189
4.7.4	Endogeneity	190
4.7.5	COVID-19.....	192
4.8	Summary of the Findings	194
4.9	Chapter Summary	195
CHAPTER 5 DISCUSSION AND CONCLUSIONS.....		197
5.1	Introduction.....	197
5.2	Recapitulations of the Study	197
5.3	Discussion	201
5.3.1	Corporate Governance Mechanisms and Firm Performance	201
5.3.2	Board of Directors’ Characteristics	202
5.3.2(a)	Board of Directors Size	202
5.3.2(b)	Board of Directors’ Independence.....	204
5.3.2(c)	Board of Directors’ Financial Expertise.....	205
5.3.3	Audit Committee Characteristics	207
5.3.3(a)	Audit Committee Size	208

5.3.3(b)	Audit Committee Independence	209
5.3.3(c)	Audit Committee Financial Expertise	211
5.3.3(d)	Audit Committee Interlocks	212
5.3.4	Risk Management Committee Characteristics:.....	213
5.3.4(a)	Risk Management Committee Size	214
5.3.4(b)	Risk Management Committee Independence	216
5.3.4(c)	Risk Management Overlapping.....	217
5.3.5	Family Ownership.....	219
5.3.6	Arab Foreign Ownership.....	221
5.3.7	The Moderating Effect of CEO Power	222
5.3.7(a)	Board of Directors, Firm Performance and CEO Power.....	222
5.3.7(b)	Audit Committee, Firm Performance and CEO Power.....	224
5.3.7(c)	Risk Management Committee, Firm Performance and CEO Power.....	229
5.4	Implications of the Study	230
5.4.1	Theoretical Implications	230
5.4.2	Practical Implications.....	232
5.5	Limitations of This Study	237
5.6	Recommendation for Future Researchers	238
5.7	Conclusions.....	239
	REFERENCES.....	241
	APPENDICES	

LIST OF TABLES

		Page
Table 1.1	GDP at Constant Market Price % in Jordan	12
Table 1.2	Annual inflation rate in Jordan	12
Table 1.3	Sectors contribution to GDP	14
Table 3.1	Distribution of firm’s number among Various Sectors	128
Table 4.1	Descriptive of Sample	155
Table 4.2	Descriptive Statistics	155
Table 4.3	Descriptive Statistics for Dummy Variable.....	159
Table 4.4	Nonlinearity test	160
Table 4.5	Pairwise correlations.....	162
Table 4.6	Variance inflation factor	164
Table 4.7	Wooldridge Test	165
Table 4.8	Modified Wald Test.....	166
Table 4.9	Pesaran’s CD (Cross-section Dependence) Test	166
Table 4.10	Fixed Effect Regression Results for Corporate Governance Mechanisms on Firm Performance.....	168
Table 4.11	Hierarchical Regression Results	176
Table 4.12	Regression results for corporate governance effectiveness.....	182
Table 4.13	Regression results for board of directors’ effectiveness.....	183
Table 4.14	Regression results for audit committee effectiveness.....	185
Table 4.15	Regression results for risk management committee effectiveness	186
Table 4.16	Regression results for corporate governance effectiveness and CEOP	187
Table 4.17	Regression results for corporate governance without control variables.....	189

Table 4.18	Two-Way Fixed Effects Model for Controlling Endogeneity	191
Table 4.19	Regression results for corporate governance and COVID-19	193
Table 4.20	Summary of the Results of Hypotheses Testing.....	194

LIST OF FIGURES

	Page
Figure 1.1	ROA and ROE for industrial sector..... 15
Figure 1.2	ROA and ROE for services sector..... 15
Figure 2.1	Accounting-based measurements conducted by (Al-matari et al., 2014) 34
Figure 2.2	Market- based measurements. Source: (Al-matari et al., 2014)..... 35
Figure 2.3	Theoretical Framework..... 89

LIST OF ABBREVIATIONS

ASE	Amman Stock Exchange
CEO	Chief Executive Officer
CSE	Colombo Stock Exchange
DPS	Dividend Per Share
DSE	Dhaka Stock Exchange's
FP	Firm's Performance
IPL	Investment Promotion Law
ISS	Institutional Shareholder Services
JNFS	Jordanian non-financial sectors
OECD	Organization for Economic Cooperation and Development
ROA	Return on Assets
SEC	Securities and Exchange Commission
TMT	Top Management Team
VIF	Variance Inflation Factor

LIST OF APPENDICES

- Appendix A Stata Output for Descriptive Statistics
- Appendix B Stata Output for Pearson Correlation
- Appendix C Stata output for Variance Inflation Factor (VIF)
- Appendix D Stata Output for Fixed Effect Regression Results for The Board Of Directors Characteristics, Audit Committee Characteristics, Risk management Committee Characteristics, Family Ownership, Arab Foreign Ownership And Firm performance.
- Appendix E Stata Output for Hierarchical Regression Results (Step 4)

**TADBIR URUS KORPORAT DAN PRESTASI FIRMA: PERANAN
PEMODERAT KUASA KETUA PEGAWAI EKSEKUTIF DI JORDAN**

ABSTRAK

Tadbir urus korporat semakin menjadi faktor utama dalam prestasi firma dalam beberapa dekad yang lalu. Dalam konteks Jordan, Bursa Saham Amman (ASE) telah membuat beberapa perubahan peraturan, mengeluarkan mekanisme tadbir urus korporat pada 2017. Walau bagaimanapun, disebabkan prestasi yang lemah dalam sektor perindustrian dan perkhidmatan, Jordan telah menghadapi cabaran perniagaan dan sosial disebabkan oleh kebangkitan Arab, yang memerlukan penemuan faktor utama yang mempengaruhi prestasi firma. Kajian semasa mengkaji kesan mekanisme tadbir urus korporat terhadap prestasi firma. Selain itu, kajian ini bertujuan untuk melihat hubungan antara mekanisme tadbir urus korporat, termasuk lembaga pengarah, ciri-ciri jawatankuasa audit, ciri-ciri jawatankuasa pengurusan dan prestasi firma. Selain itu, kajian juga mengenal pasti pengaruh kuasa CEO sebagai pembolehubah penyederhana dalam hubungan ini. Berdasarkan teori agensi dan teori kebergantungan sumber, model konseptual dibangunkan dan diuji menggunakan data kaedah mono daripada 67 syarikat. Kajian itu menggunakan laporan tahunan untuk tahun kewangan 2017-2020 dalam firma Jordan. Analisis regresi multivariate telah dijalankan untuk menguji hipotesis menggunakan perisian STATA. Dapatan kajian menunjukkan bahawa saiz lembaga pengarah dan kepakaran kewangan mempunyai kesan yang signifikan terhadap prestasi firma. Begitu juga, penemuan jawatankuasa audit adalah signifikan untuk semua pembolehubah. Mengenai pembolehubah jawatankuasa pengurusan risiko, dapatan kajian menunjukkan bahawa pertindihan jawatankuasa pengurusan risiko mempunyai kesan yang signifikan terhadap prestasi

firma. Selain itu, keputusan menunjukkan bahawa pemilikan keluarga mempunyai kesan yang signifikan terhadap prestasi firma. Di samping itu, kesan penyederhanaan kuasa CEO, keputusan menunjukkan bahawa kuasa CEO melemahkan hubungan antara saiz lembaga pengarah, kebebasan lembaga pengarah, kepakaran kewangan lembaga pengarah, kebebasan jawatankuasa pengurusan risiko, risiko pertindihan jawatankuasa pengurusan, dan prestasi firma. Akhir sekali, kajian ini membimbing badan-badan pengawalseliaan seperti ASE untuk merangka strategi dan dasar baharu. Seterusnya, kajian ini dapat meningkatkan lagi pengetahuan penyelidik akademik dengan menutup jurang literatur.

**CORPORATE GOVERNANCE AND FIRM PERFORMANCE:
THE MODERATING ROLE OF CHIEF EXECUTIVE OFFICER POWER
IN JORDAN**

ABSTRACT

Corporate governance has increasingly become a key factor in firms' performance in the last few decades. In the Jordanian context, the Amman Stock Exchange (ASE) has made several regulatory changes, issuing corporate governance mechanisms in 2017. However, due to the poor performance in the industrial and service sectors, Jordan has faced business and social challenges since the Arab uprising, which required identifying key factors influencing firm performance. Therefore, it is necessary to find mechanisms to control the efficiency of firm performance. This thesis focused on three major elements: corporate governance mechanisms, firm performance, and CEO power. The current study examines the effect of corporate governance mechanisms (board of directors' characteristics, audit committee characteristics, risk management committee characteristics, family ownership, and Arab foreign ownership) on firm performance based on the agency and resource dependence theories. Moreover, the study also identifies the influence of CEO power as a moderating variable in the relationship between the board of directors' characteristics, audit committee characteristics, risk management committee characteristics, and firm performance. Based on agency and resource dependence theories, a conceptual model is developed and tested using the mono-method data from the 67 companies. The study employs the annual reports for the financial years 2017-2020 in Jordanian firms. The ordinary least square, fixed effect model, and random effect model regression estimators were performed to test the hypotheses to obtain the

appropriate model. The research findings indicated that the board of directors' size, financial expertise, audit committee size, audit committee independence, audit committee financial expertise, audit committee interlocks, risk management committee overlapping, and family ownership have a positive significant effect on firm performance. Meanwhile, the result showed that the board of directors' independence, risk management committee size, and risk management committee independence have insignificant effects on firm performance. Furthermore, the result showed that Arab foreign ownership has a negative effect on firm performance. As for the moderating effect of CEO power, the result showed that CEO power weakens the relationship between the board of directors' size, the board of directors' independence, the board of directors' financial expertise, the risk management committee independence, the risk management committee overlapping, and firm performance. Finally, this study enhances the knowledge and implications of the theories used for corporate governance dimensions. It provides feedback to regulators and policymakers in Jordan on the effectiveness of corporate governance practices concerning firm performance, which should enable Jordanian regulators and policymakers to improve the corporate governance system. Furthermore, the findings can be used by all stakeholders (including regulators, businessmen, investors, and the general public) to better understand the performance issue and its consequences. Moreover, this study can further enhance researchers' knowledge by covering the literature gaps.

CHAPTER 1

INTRODUCTION

1.1 Introduction

It was found that the corporate governance system is not always applicable as what is considered beneficial for firm A may not be regarded as advantageous for firm B. Moreover, the literature reviewed suggests an increasing emphasis on corporate governance in developing countries, namely in the Middle East and North Africa (MENA) region, with attempts to adopt good governance concepts. Nevertheless, the research emphasizes deficiencies in the processes of corporate governance and the execution of regulations, suggesting a requirement for additional enhancements. For example, according to Mohammed (2018b), corporate governance regulations in developing countries such as Jordan are widely written but poorly implemented. Thus, this study aims to examine the relationship between corporate governance mechanisms and firm performance. Using 268 observations for 67 non-financial public listed firms on the Amman stock exchange.

This study contributes to the literature concerning corporate governance mechanisms across varying contexts. First, a unique sample period from 2017 to 2020 is explored in the present study allowing the researchers to examine the influence of the updated corporate governance code in 2017 on firm performance. Second, in the context of Jordan, new variables to the corporate governance mechanisms literature including board of directors (size, independence and financial expertise), audit committee (size, independence, financial expertise and interlocks), risk management committee (size, independence and overlapping), family ownership and Arab foreign ownership are introduced. Finally, the corporate governance literature

presents conflicting findings, some studies have discovered a positive association between the aforementioned confirmed variables, while others have discovered a mixed relationship, both positive and negative. To strengthen or weaken the relationship between such variables by addressing when or for whom the variables affect one another, Baron and Kenny (1986) proposed that the moderator variable be established and employed in cases where the dependent and independent variables have a poor or inconsistent relationship. To the best knowledge of the researcher, no study has examined the moderating role of CEO power between corporate governance and firm performance in one research framework.

1.2 Background of the Study

Scholars claimed that firm performance plays a crucial role in promoting economic growth, resolving social issues, and lowering the unemployment rate (Pérez-Cornejo et al., 2019; Song et al., 2020). In the 1950s firm performance, such as organizational efficiency, was applied to assess the extent to which an organization could achieve its goals with the least amount of labor given its constrained resources (Taouab & Issor, 2019). Productivity, flexibility, and interorganizational tensions were among the performance evaluation factors (Georgopoulos & Tannenbaum, 1957). An organization's ability to utilize existing resources, such as an achievement that was in line with the objectives of the given company, was used to define organizational performance in the twenty-first century's first decade (Peterson et al., 2003).

Nowadays, firm performance is one of the driving forces essential for economic well-being and growth (Harrison & Rodríguez-Clare, 2010). Firm performance is related to firm–efficiency. It is a significant portion of internal performance, which is typically the result of more efficient processes and other

external actions linked to planning and connected to the economic evaluation by directors and other stakeholders in terms of corporate social responsibility. Firms can evaluate and measure their performance in various ways, including social responsibility, monetary performance, worker stewardship, and customer service (Isa, 2017).

In the twenty-first century, performance has played a crucial role in assisting firms to deal effectively with competition, increasingly complex customer demands, managerial practices, and accelerating globalization (Atkinson & Brown, 2001). Good firm performance is believed to be basic driving factor in developed countries (Al-Naser, 2017). Kakanda, bello and Abba (2016) stated that:

"Performance is a key to determine the perpetuity of a business set up. It is regarded as the foremost objective of profit-oriented organizations. A well-performing business is often one that is effective and efficient in securing its long-term success. Managers of corporate entities are much concerned about high performance, as it has a long-term effect on their corporations ranging from an adequate utilization of resources and investors' wealth maximization"(p.212).

As a result, it is vital for management, stakeholders, and decision-makers to possess a comprehensive comprehension of the significant advantages associated with firm operations in order to enhance financial success (Al-matari et al., 2014). These advantages are crucial for the company and its business clients and investors (Sayyar et al., 2015).

Firm performance is an important source of sustainable economic growth. Profitable companies create value, employ people, foster innovation, and pay taxes (Lazăr, 2016). Similarly, firm performance is vital for investors, stakeholders, and the

economy (Javed & Mirza, 2013). The return on investment is extremely significant to investors, and a well-performing business can provide substantial and long-term returns to investors. Furthermore, firm financial profitability will increase the income of its employees, produce higher-quality products for its customers, and have better environment-friendly manufacturing units. Moreover, more profits will result in more future investments resulting in more job opportunities and an increase in income (Javed & Mirza, 2013).

The corporate performance of any company determines its survival and growth (Eluyela et al., 2018). A company's major goal is to increase its efficiency and effectiveness to survive long term, as organizations compete for survival (Alabdullah, Yahya, & Ramayah, 2014a). According to a survey, surviving firms delivered the product that customers required at a reasonable price while covering costs (Fama & Jensen, 1983). Moreover, companies struggle to enhance profits. To do so, companies must make appropriate decisions that affect their profitability. Choosing an optimal finance source is essential to determining a company's profitability (Almajali & Shamsuddin, 2019). Most companies, on the other hand, are focused on improving their performance in whatever manner possible, ignoring the fact that those who strive to innovate and maintain performance are more likely to succeed.

Companies must compete in a constantly changing environment to understand and monitor performance (Taouab & Issor, 2019). To economists, successful firms are the keystones of national development programs since they are economic, social, and political progress indicators. Every firm should function under performance-based conditions to survive in a competitive business environment (Taouab & Issor, 2019). Thus, Jordan has established a long-term plan or vision, i.e., the 'Jordan 2025' vision to support and modernize the Jordanian economy (MPIC, 2016). Privatization was part

of the overall economic package that the government has adopted since the early nineties, namely the economic adjustment program, and self-reliance in the aftermath of the economic crisis that befell the country. Thus, the government went through privatization as Jordan needed to open up its market to the world, through partnership agreements with the European Union (EU) and accession to the World Trade Organization (WTO). The conclusions of some official surveys (“privatization in Jordan” on Amman Stock Exchange website) demonstrated “the prevalence in the public sector institutions and corporations of a large degree of inefficiency in the administrative and employment policies, squander of public funds, administrative archaism, substandard services, and high indebtedness, while the private sector firms were yielding higher returns and generating better job opportunities, given the high level of efficiency in the administrative and employment policies.

Therefore, it is expected that privatization in Jordan can affect firm performance and the probability of default in a positive way. Thus, the primary purpose of ‘Jordan 2025’ involves performing appropriate policies and regulations to enhance the private sector to be internationally competitive (Jordantimes, 2015). However, Jordan is still suffering from a shortage of transparency and quality in financial accounting information. The accounting data quality provided for the users of financial statements and the downturn in the equity markets worldwide were found to be associated with the shortage of transparency and quality in financial accounting information.

The significance of transparency in fostering equitable competition, facilitating investment, and bolstering public and business confidence in accountability was underscored by the global financial crisis (Persakis, 2018). Nevertheless, issues such as Corporate scandals and failings in a number of corporations, such as Enron,

WorldCom, Arthur Andersen, Wirecard in 2020, Signature Bank and Credit Suisse in 2023, The latest business crisis has ignited intense debates on the inclusion of alternative perspectives in assessing firm performance, which is considered a crucial component of firms' strategic objectives aimed at maximizing shareholders' wealth (Alabdullah, 2014, 2016; Gabriel, 2018; Zeranski & Sancak, 2020). Furthermore, one of the corporate scandals involves Toshiba, a Japanese corporation. In the instance of Toshiba, an investigation into the 2015 accounting scandal was conducted. According to New Straits Times (2017) several former directors on its audit committee were deemed unqualified. Senior administrators were accused of defrauding the accounting system of the company. After the 2008 global financial crisis, it was discovered that senior executives had pushed for profit to conceal poor results for at least two years (New Straits Times, 2017). In the meantime, the Gulf Market collapsed in the Middle East, interrupting listing and trading activity in the region (Talab, 2019). The collapse of established corporate governance (CG) processes was cited as one of the contributors to the financial crisis (Talab, 2019).

The World Bank Report (2014) and Tradingeconomics (2019) indicated that the industrial and service sectors have shown a decline in GDP as a result of regional uncertainty, rising unemployment, reliance on money transfers, and grants from Gulf economies, as well as growing pressure on the extraction of natural resources. As a result, the Jordanian capital market and its economic conditions remain weak. Thus, this situation serves as an important call for research to be conducted on the Jordanian firm performance.

In addition, throughout the last several decades, the economic situation in Jordan has not been favourable for investors. The most significant reason for this is the incomplete commitment to the governance mechanisms. Dakhllalh et al. (2020)

mentioned that scams, scandals, and malpractice have caused a significant decline in the output of Jordanian companies and a breach of the confidence of Jordanian investors. They further explained that this is particularly happening after the conversion of the five public shareholders companies to compulsory liquidation in 2017. These five public shareholders companies are strong proof that they were unable to handle their financial and administrative matters. This case indicated the importance of corporate governance capacity to supervise and guide senior management in safeguarding shareholder interests and position it as a highly significant corporate governance instrument. Furthermore, the current study focuses on industrial and service sector performance companies, as well as their internal CG procedures, in Jordan. Due to its central location in the region, Jordan is regarded as an important Middle Eastern country with a unique strategic and political status (Naser, 1998).

CG focuses on establishing the structure, procedures, and mechanisms that regulate firm performance to maximize shareholder value through managers' accountability and firm performance association (Alabdullah, Yahya, & Ramayah, 2014b). Moreover, empirical evidence in the literature supports the idea that CG reduces agency costs, supporting the notion that the stronger the CG, the better the performance and the greater the firm value (Alabdullah et al., 2014a; Chen, Chen, & Wei, 2009).

CG entails locating solutions to reduce the magnitude of conflicts and their detrimental effects on the value of a business. Conflict of interest exists between management and shareholders due to the ownership separation (Florackis, 2008). Agency cost is an internal expense arising from owner-agent conflicts of interest in a company (Nguyen et al., 2020). As a result, CG is a mechanism for selecting the best board members while regulating and managing firms effectively and profitably. It is a

highly beneficial approach for managing and governing organizations (PeiZhi & Ramzan, 2020). Furthermore, effective CG creates accurate and trustworthy financial reports, whereas bad governance, associated with corporate scandals and fraud, produces inaccurate financial reports that can lead to a loss of trust in financial statements (Rahman & Bremer, 2016). CG is also important for the long-term viability of a company's operations and for retaining investor confidence (Sailendra et al., 2020).

In the last decade, CG frameworks in the MENA region have evolved significantly. Better implementation of CG laws and regulations has emerged as a policy problem and a goal for the region in the last three years. This focus on greater enforcement reflects a number of events including political shifts in some regional countries, a global call for stronger observation of the adoption of governance rules and low investor participation in the region (OECD, 2014). CG frameworks in the region are made up of corporate law that lays out the basic structure of the governance organs of the company, a security law that regulates market abuse and disclosure requirements, and CG codes, which are now in place in all but a country in the region (OECD, 2014).

In 2017, Jordan published a new corporate governance code (ASE, 2017). In 2009, the corporate governance instructions were not required to be followed, but since 2017, compliance with the instructions has been mandatory. For corporate governance, the structure of the board of directors, the audit committee, and the risk management committee are three important internal structures. Market management for companies is an essential external device, representing the firms' success in marketing strategy and planning activities to advertise products and services in the market (Fawal &

Mawlawi, 2018). In emerging economies, market control is weak and, hence, corporate governance's internal structures are essential in economies (Al-Hawary, 2011).

Unlike some of the other developing countries, Jordan is characterized by high ownership concentration. This clarifies why ownership structure is the predominant mechanism of control in Jordan. Due to its small capital market, Jordan depends significantly on foreign capital. Furthermore, a less liquid and small market produces more risk for foreign investors (Saleem Salem Alzoubi, 2016). According to the Amman Stock Exchange, shares owned by non-Jordanians represented (47.1%) of ASE capitalization, (32.2%) of which are owned by Arab investors, and (14.9%) by non-Arabs. Moreover, family firms constitute over 40% of the overall firms listed on the Amman Stock Exchange (ASE). It implies that family firms play a significant role in the country's economic growth and workforce employment (Bataineh et al., 2018; Saleem Salem Alzoubi, 2016).

Previous research has shown no agreement regarding the relationship between corporate governance and firm performance. In the case of an inconsistent relationship between the dependent and independent variables, and to strengthen or reduce the relationship between such variables a moderator was proposed to be used (Baron & Kenny, 1986). In addressing the gap, it contributes to the current body of knowledge by looking into the moderating role of CEO power among the variables of the study mentioned above. Previous research has shown that most companies with a powerful CEO had lower firm performance (Han et al., 2016; Theng & Chee-wooi, 2017; Veprauskaite & Adams, 2013). Furthermore, the very governance that monitors and evaluates their actions is being changed by powerful CEOs (Albuquerque & Miao, 2013; Hermalin & Weisbach, 1998). Similarly, Veprauskaite and Adams (2013) asserted that there is a perceived positive relationship between powerful CEO

discretion and information asymmetry. This relationship increases the likelihood of a corporate governance flaw that leads to a non-value-adding decision. Information dissemination can be a way to minimize agency costs (Jensen & Meckling, 1976). As a result, power distribution between the CEO and the boards controls the determined attained interests (Lewellyn & Muller-Kahle, 2012). Thus, the current study highlights the moderating role of CEO power in weakening the relationship between the board of directors, audit committee, risk management committee, and firm performance. Therefore, it is expected that the findings will answer the unresolved problem in the literature by investigating the CEO power influence as a MV on the ties between corporate governance, and firm performance. Based on the knowledge available to the researcher, this is the first study to look into the moderating effect of CEO power on the relationship between corporate governance and firm performance.

1.3 Jordanian Market

Due to its location in the heart of the Middle East, Jordan is regarded as an important country with a strategic position in terms of political and economic potential in the region (Naser, 1998). Compared to other countries in this region, Jordanian economic growth is subject to Jordan's geography and political background. From a historical perspective, Jordan was established as Trans-Jordan from fragments of the Ottoman Empire at the end of world war I (WWI), and Amir Abdullah was appointed as its ruler. After Palestine was added and Israel was established, Jordan's borders changed during the following decades. Its high birth rate (28 per thousand) and waves of migration (450,000 during the 1948 conflict, 400,000 following the 1967 war, and 300,000 after the 1991 Gulf War) led to its five-million population. Jordan's trade and commerce reflect its close relations with its neighbors. King Hussein, Abdullah's

grandson, who reigned from 1952 to 1999, adopted a conservative policy in the administration of the country and King Abdullah II is said to follow in his father's footsteps. The King authorizes all key decisions, including those on economic policy, and occasionally even their execution, even though policies do not always reflect public sentiments (e.g., many privatization transactions). The cabinet ministry is chosen from a small group of people with similar views, so policies do not change drastically when members change. Establishing institutions is challenging in these conditions, and creating the private sector is more difficult than enacting laws (Ramachandran, 2004).

However, the economy of Jordan is predominantly reliant on remittances that are repatriated by overseas employees. Due to the lack of oil resources, from the 1970s, many of its workers migrated to the Gulf countries. Hence, Jordan's domestic savings have increased by their transfers, which amount to about 20 percent of GDP, as a result, allowing imports to outpace exports significantly. Jordan is classified as a lower-middle-income country with a 2003 per capita GNP of US\$1,706. Oil price fluctuations affect the inconsistent nature of worker transfers and some foreign government handouts that support the budget, making the economy susceptible to recession. Additionally, 92 percent of Jordan is semi-arid, leading to a concentration of agriculture in the Jordan River valley and some non-irrigated crops cultivated upland. Heavy industry is limited to using phosphate and potash as raw materials, which are then processed to be used as fertilizer. The majority of manufacturing companies (98 percent) are centred in and around Amman and Aqaba, the only port in Jordan. These companies employ fewer than 20 individuals overall (Ramachandran, 2004).

The Jordanian economy experienced a significant number of external shocks in the Middle East. In 1990–1991 the first Gulf War began, resulting in migrant workers and refugees returning to Jordan, which raised poverty and unemployment rates. For instance, more than 300,000 individuals returned to the Hashemite Kingdom of Jordan from Gulf countries (Ramachandran, 2004). The second Gulf War in 2003, the ongoing conflict in the West Bank and Gaza, damaged the tourism industry and investment in Jordan. Moreover, the Palestinian Intifadah, which started in September 2000, had a substantial negative effect on economic development in Jordan. Since most Jordanian enterprises' export production flows to neighbouring countries, the Palestinian Intifada negatively impacted performance (Zeitun & Tian, 2014). These external shocks, the global financial crisis, and Arab uprisings affected the country's GDP growth as depicted in Table 1.1 (Central Bank of Jordan, 2021).

Table 1.1 GDP at Constant Market Price % in Jordan

Year	2018	2019	2020	2021
GDP at constant market price %	1.9	2.0	-1.6	2.2

Source: Central Bank of Jordan (2021)

Table 1.2 Annual inflation rate in Jordan

Year	2018	2019	2020	2021
Annual inflation rate in jordan	4.5	0.8	0.3	1.3

Source: Central Bank of Jordan (2021)

The high inflation rate in Jordan results from its monetary and economic policies, high rate of openness to the regional and international economy, and weak structural productive base (Sweidan, 2004). Inflation has a negative impact on

economic growth, but it can be positive when the inflation rate is 2% and below, and it has a negative impact at greater rates (Saymeh & Orabi, 2013).

Variations in macroeconomic variables influence the optimal performance of publicly traded companies (Mwenda et al., 2023). These elements are external to the organization and are beyond the control of management. Politico-environmental variables, suppliers, government regulations, and competitors all play an influence (Issah & Antwi, 2017). Multiple external factors influence the growth of a corporation (Mwenda et al., 2023). Because, macroeconomic stability is underpinned by public governance reforms, which spill over to the area of corporate governance (Ugur & Ararat, 2006). Second, macroeconomic stability tends to have a positive effect on firms' investment in corporate governance quality (Ugur & Ararat, 2006). In addition, the corporate governance framework in Jordan is in its infancy because it remains unclear which entity is responsible for monitoring the implementation of corporate governance code's recommendations (Cigna & Meziou, 2017). Thus, these factors make a unique Jordanian case and are hardly found in any other existing studies to examine the effect of corporate governance on firm performance and the moderating role of CEO power.

1.4 Problem Statement

In the light of political instability in the Middle East, the economy in Jordan was affected by the challenges imposed by uncertainty in the area (Central Bank of Jordan, 2018). There were two successive external shocks, namely the global financial crisis and Arab uprisings, which consequently gave rise to lower growth, economic balance, and balance of payments (World Bank, 2014). Furthermore, since the onset of the Arab uprisings in 2011, non-financial firms in Jordan have faced numerous

challenges, leading to a decline in their performance. The main factors are regional instability, high unemployment, reliance on transfers, assistance from Gulf economies, and ongoing pressure on natural resources (Alabdullah et al., 2016). Return on assets (ROA) is a performance metric for Jordan's industrial sector falling from 8.09 % in 2010 to 3.79 % in 2020. In addition, the return on equity (ROE) performance indicator fell from 10.79 % in 2010 to 5.94 % in 2020 (ASE, 2021).

The industrial sector in Jordan is significant in terms of GDP contribution at basic prices. During 2003–2006, the industrial sector grew faster than the rest of the economy, increasing from 18.4% to 21.3%. and in 2006-2019, the percentage increased from 21.3% to 27.4%. It demonstrates that this industry is critical to economic growth in Jordan. On the other hand, the service sector plays a significant role, as seen by its 66.9% contribution to GDP in 2019, contrasted to the low percentage of the contribution of the industrial sector, which was 27.7% in 2019 (illustrated in Table 1.3). The performance derived from ROA and ROE is inconsistent and declining, according to (ASE, 2019), return on assets (ROA) for the services sector in Jordan falling from 5.53 % in 2010 to 0.09 % in 2020, while return on equity (ROE) fell from 8.89 % in 2010 to 0.13 % in 2018 (ASE, 2021). (See Figure 1.2). Moreover, return on assets (ROA) is a performance metric for Jordan's financial sector falling from 0.62 % in 2010 to 0 % in 2020. In addition, the return on equity (ROE) performance indicator fell from 3 % in 2010 to 2 % in 2020. (See Figure 1.3)

Table 1.3 Sectors contribution to GDP

Sectors	GDP (%)
Services Sectors	67.1
industrial Sectors	27.4
Other Sectors	5.5

Source: Central Bank of Jordan (2020)

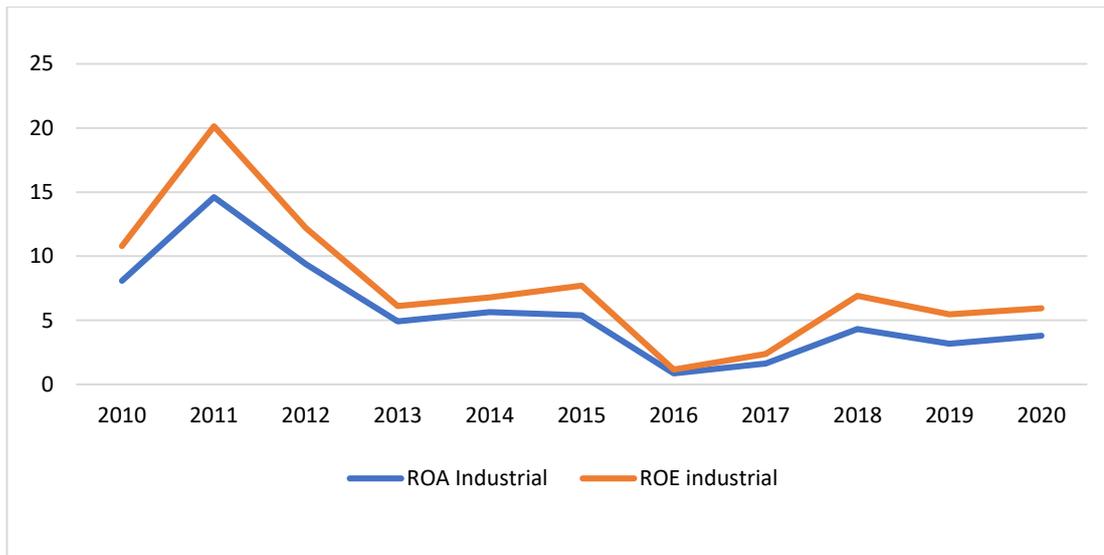


Figure 1.1 ROA and ROE for industrial sector.

Source: Amman Stock Exchange (2020a)

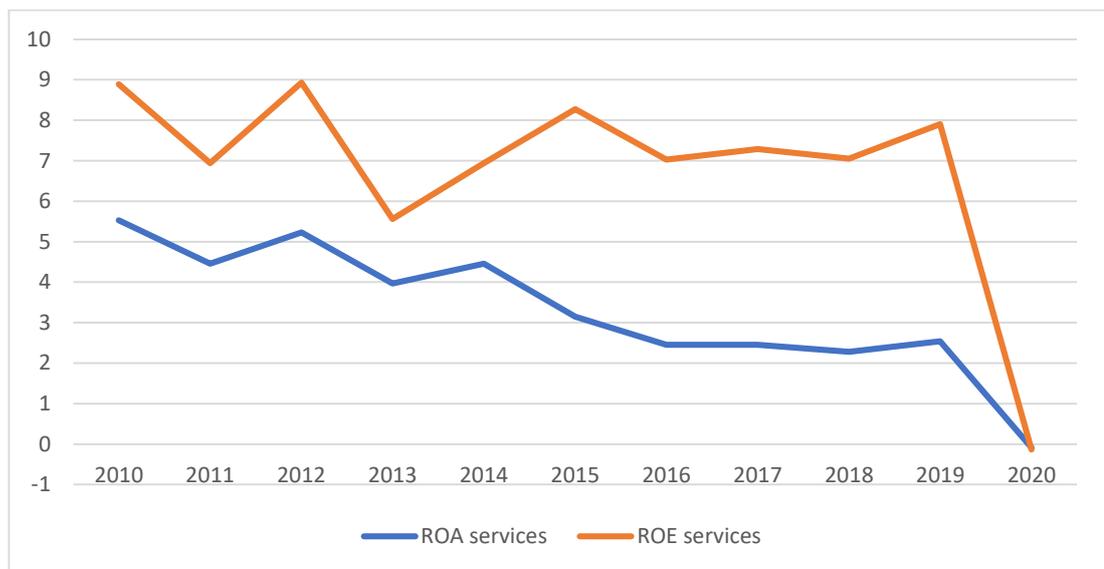


Figure 1.2 ROA and ROE for services sector.

Source: Amman Stock Exchange (2020b)

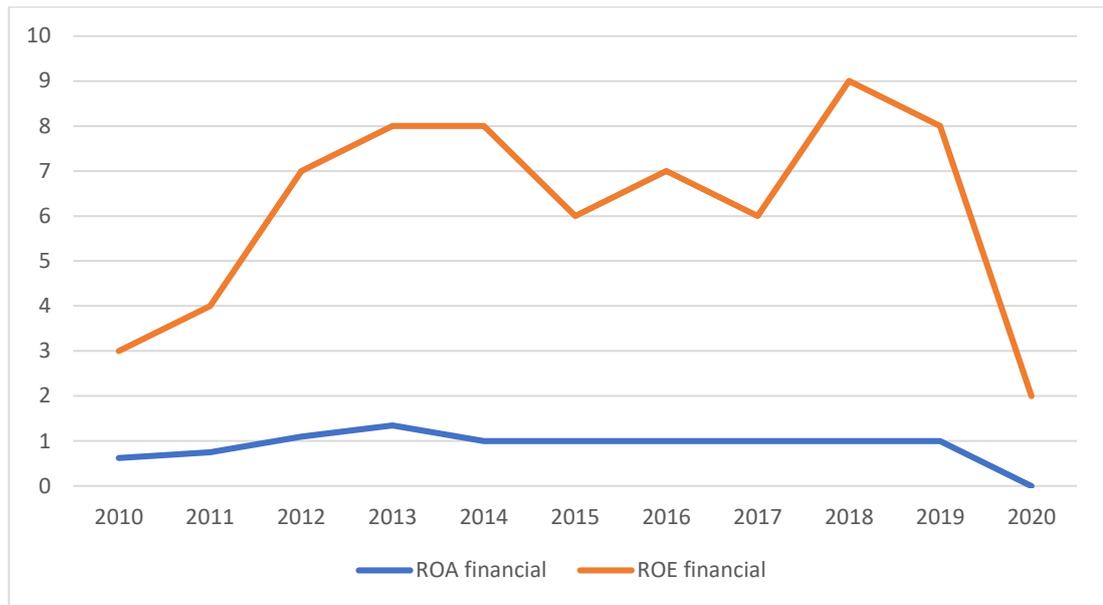


Figure 1.3 ROA and ROE for financial sector.

Source: Amman Stock Exchange (2020b)

The COVID-19 pandemic spread from China to the world had an undeniable impact on the world economy since 2019 (Azizah & Wulaningrum, 2022). The pandemic has had a drastic impact on the Global Health and business, especially in terms of performance and business accompanying the implementation of lockdown regulations and main social restrictions (Khatib & Nour, 2021). The impact of this pandemic has also been documented in the stock market, financial sector, and other sectors (Shen et al., 2021). Firm performance started to decline in February and worsened in March 2020 when the first cases of COVID-19 emerged in Jordan. The CEO of the Amman Stock Exchange stated that the profits after tax attributed to shareholders of the company for the first quarter of 2020 for public shareholding corporations listed on the ASE and submitting their financial statements to the exchange, decreased to 88.6 million dinars, compared to 268.5 million dinars for the first quarter of 2019. It is worth noting that profits before taxes for these companies fell by 58.0% to 162.4 million dinars in the first quarter of 2020, compared to 386.5 million dinars in the first quarter of 2019. In terms of sectors, the services sector had

the lowest profits after taxes, falling 277.3%, followed by the industrial sector, which fell 59.0%, and the financial sector, which fell 47.0% (Amman Stock Exchange, 2020c). Thus, this situation serves as an important call for research to be conducted on the Jordanian firm performance.

In addition, throughout the last several decades, the economic situation in Jordan has not been favourable for investors. The most significant reason is the incomplete commitment to the governance mechanisms. Dakhllalh et al. (2020) mentioned that scams, scandals, and malpractice have caused a drastic decline in the output of Jordanian companies and a breach of the confidence of Jordanian investors. They further explained that this is particularly happening after converting the five public shareholders companies to compulsory liquidation in 2017. These five public shareholders companies are strong proof of being unable to handle their financial and administrative matters. This case indicated the importance of the board of directors' capacity to supervise and guide senior management regarding their responsibility in safeguarding shareholder interests and positions it as a highly significant corporate governance instrument. Thus, the characteristics of the Board of Directors (board size, board independence, and board financial expertise) of the companies in Jordan will be treated as one of the independent variables in the current study.

It is necessary to mention the current application of the established norms and regulations of corporate governance is inadequate, highlighting the need to improve the existing code due to recent amendments to the Jordanian corporate governance code (Sarhan et al., 2019). In 2009, the corporate governance instructions provided a list of Amman Stock Exchange-listed companies exempt from compliance, but since 2017, compliance with the instructions has been mandatory. According to Mohammed (2018b) corporate governance regulations in developing countries such as Jordan are

widely written but poorly implemented. Similarly, Qadorah and Fadzil (2018) asserted that Jordanian firms do not fully comply with corporate governance concepts and regulations as required. For instance, only five of the ten largest listed companies disclose having remuneration and a nomination committee (Cigna & Meziou, 2017). Moreover, companies provide limited information on their audit committees. Only 50% of the top ten publicly traded corporations report having such a committee, and only one of them publishes the frequency of committee meetings. None of these companies provide information about the qualifications of the audit committee members or their activities. Only one company discloses the presence of independent directors on the committee. Therefore, it is impossible to evaluate the degree to which audit committees guarantee the independence and efficiency of external and internal auditors (Cigna & Meziou, 2017).

Many Jordanian companies have established a risk committee independent from the board of directors, whose major responsibility is to analyse, update, and change risk policies in response to any potential events or scenarios that the company may encounter (Alkilani et al., 2020). A risk committee also examines and monitors many risks to which a company may be exposed, establishes a risk management policy, and monitors that policy annually (Amman Stock Exchange, 2017). In 2017, the corporate governance code mandated the formation of committees under the supervision of the board of directors, including the audit, nomination, and remuneration committees, the corporate governance committee, the risk management committee, and the human resources committee. The risk management committee must have at least three members, one of whom must be an independent member as the committee's leader, and it may include members of the executive management. It should meet twice a year (Amman Stock Exchange, 2017).

Unlike some developing countries, Jordan is characterized by high ownership concentration. This clarifies why ownership structure is the predominant control mechanism in Jordan (Alzoubi, 2016). Due to its small capital market, Jordan depends significantly on foreign capital. Furthermore, a less liquid and small market produces more risk for foreign investors (Alzoubi, 2016). According to the Amman Stock Exchange, shares owned by non-Jordanians represented (47.1%) of ASE capitalization, (32.2%) of which are owned by Arab investors, and (14.9%) by non-Arabs. Moreover, family firms constitute over 40% of the overall firms listed on the Amman Stock Exchange (ASE). It implies that family firms play a significant role in the country's economic growth and workforce employment (Bataineh et al., 2018; Alzoubi, 2016).

On the other hand, the relationship between CEOs and firm performance is receiving fresh scholarly attention. According to certain studies, CEOs have a significant and growing impact on firm performance (Quigley & Hambrick, 2015). According to agency theory, managers play a critical role in firms since they are the principal agents (Jensen & Meckling, 1976). According to Theng and Chee-wooi (2017) when a company's CEO has high power, the firm performance will decline. Positive performance variabilities, on the other hand, are more extreme for influential CEOs, according to Adams and Ferreira (2005). Furthermore, Veprauskaite and Adams (2013) stated that there is a perceived positive association between powerful CEO decision-making discretion and information asymmetry, which affects the possibility of corporate governance weakness. As a result, powerful CEOs work to change the governance that controls and evaluates their actions (Albuquerque & Miao, 2013; Hermalin & Weisbach, 1998). Prior literature suggested that the more power CEOs have, the more pay they should receive, and CEOs have more power, they

should receive more cash and total pay (Tien, Chen, & Chuang, 2013; Van Essen, Otten, & Carberry, 2012). In the context of Jordan, over an extended period, numerous shareholders in publicly traded joint-stock companies have voiced concerns regarding the remuneration received by general managers, CEOs, and chairpersons of the board of directors in such companies. In mid-2017, the salaries of general managers in twenty companies surpassed \$200,000, with increases of \$100,000, despite the loss of these companies (garaanews, 2017). Thus, it can be concluded that the impact of increasing CEOs' salaries is a serious issue that necessitates further investigation.

Previous research has shown no agreement regarding the relationship between corporate governance (board of directors' characteristics, audit committee characteristics, risk management committee characteristics, Arab foreign ownership, and family ownership) and firm performance. In the case of an inconsistent relationship between the dependent and independent variables to strengthen or reduce the relationship between such variables a moderator was proposed to be used (Baron & Kenny, 1986). Thus, this study proposes CEO power as a moderating variable in weakening the relationship between the board of directors' characteristics, audit committee characteristics, risk management committee characteristics, and firm performance.

1.5 Research Objectives

This study aims to address the relationship between board of directors' characteristics, audit committee characteristics, risk management committee characteristics, family ownership, Arab foreign ownership, and firm performance. Moreover, it addresses the moderating role of CEO power in weakening the relationship between board of directors' characteristics, audit committee

characteristics, risk management committee characteristics, and firm performance.

Thus, the following objectives have been sought to be achieved in the present study:

- i) To examine the relationship between the board of directors' characteristics (size, independence and financial expertise) and firm performance.
- ii) To examine the relationship between the audit committee characteristics (size, independence, financial expertise and interlocks) and firm performance.
- iii) To examine the relationship between risk management committee characteristics (size, independence, and overlapping) and firm performance.
- iv) To examine the relationship between family ownership and firm performance.
- v) To examine the relationship between Arab foreign ownership and firm performance.
- vi) To examine the moderating effects of CEO power in weakening the relationship between the board of directors' characteristics, risk management committee characteristics, and audit committee characteristics toward firm performance.

1.6 Research Questions

To address the relationship between board of directors' characteristics, audit committee characteristics, risk management committee characteristics, family ownership, Arab foreign ownership, and firm performance and also the moderating role of CEO power in weakening the relationship between the board of directors'

characteristics, audit committee characteristics, risk management committee characteristics, and firm performance, the researcher will attempt to answer to the following questions:

- i) Does the board of directors' characteristics (size, independence and financial expertise) affect firm performance?
- ii) Does the audit committee characteristics (size, independence, financial expertise and interlocks) affect firm performance?
- iii) Does the risk management committee characteristics (size, independence, and overlapping) affect firm performance?
- iv) Does family ownership affect firm performance?
- v) Does Arab foreign ownership affect firm performance?
- vi) Does the CEO's power weaken the relationship between the board of directors' characteristics, audit committee characteristics, and risk management committee characteristics toward firm performance?

1.7 Significance of the Study

The study's significance arises from the importance of the variables employed in this research, specifically to corporate governance, CEO power, and firm performance. These variables are commonly known as crucial instruments for monitoring opportunistic managerial behaviours and regulating the inconsistent dissemination of information among the relevant parties. Simultaneously, this study can contribute to giving empirical evidence about the direct relationship between corporate governance and firm performance, with the moderating influence of CEO power. The study's theoretical and practical significance is outlined below:

1.7.1 Theoretical Contribution

This study will contribute to the literature by enhancing the understanding of the corporate governance concept by examining the impact of the corporate governance mechanism in Jordan since this research responds to the calls of previous research which have acknowledged that the research in this area is insufficient. In this vein, the current study will contribute to bridging the gap of the debate about the linkage between corporate governance and firm performance, as well as increasing the understandability of corporate governance and CEO power in the Middle East and particularly in Jordan, as a developing country. Thus, the findings of this study may benefit many other developing countries with similar political, cultural, environmental, and economic conditions, especially in the Middle East and North Africa. The first theoretical contribution of the current study is presented by increasing the understanding of the agency and resource dependence theory by explaining the study framework using a theoretical method:

- Agency theory suggests that monitoring mechanisms match the interests of shareholders and managers and relieve opportunistic behaviours and interest conflict. Therefore, from the perspective of agency theory, this study will contribute to suppose corporate governance mechanisms as monitoring tools to reduce managers' incentives, thus, improving firm performance in the Jordanian environment.
- Resource dependence theory suggests that organizations are dependent on their external environments. Moreover, organizational efficiency is based not only on the firm's ability to manage its resources but also on its ability to obtain them from its surroundings (Salancik & Pfeffer, 1978).

As a result, external resources become both necessary and vital to the organization that requires them simultaneously (Ishak, 2015).

Finally, the findings of this study provide a map for the prevailing situation of corporate governance, and CEO power in Jordan which is interesting for local and international investors, managers, and academic researchers considering the impact of the corporate governance framework CEO power on firm performance.

1.7.2 Practical Contributions

This study helps corporate governance practitioners to improve firm performance so that the stakeholders and investors' workforce can be more satisfied, particularly in Jordan. Therefore, this study provides a basis for determining whether the existing practices and listing requirements enhance good governance in Jordan's economy. It is hoped that the results will give further direction to the Amman stock exchange regarding the mechanisms of corporate governance in Jordan. Besides, the study helps stakeholders, beneficiaries, and authorities devise policies to retain transparency and credibility in financial reports. Meanwhile, studying this issue helps to lower the agency cost rates, which could save the firms millions of dollars in investment and save the integrity and image of the reports in the Jordanian firms. It also helps develop the overall firm performance.

Moreover, the present study supports the management to form a clearer picture of the most significant governance practices for Jordanian firms and the Middle East in general. In addition, this study could provide insights into the accounting standard board for future accounting standards in Jordan. Therefore, such investigation will strengthen the economic environment, affect the firm performance and, contribute to