



How Significantly for Emerging Economies to Benefit From Board Attributes and Risk Management in Enhancing Firm Profitability?

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This paper aims to considerably contribute to the area of corporate governance to be then involved in the new trends testing the role of board attributes as mechanisms of corporate governance to know whether non-financial companies in the developing economies will benefit from these mechanisms in their impact on firm profitability. Thus, the present study tested 100 non-financial companies based on their annual reports in the year of 2020 as a cross-sectional study. The results of testing the variables of the current study revealed that there is a negative link between board of directors size and profitability. On the other hand, the results showed that the managers independency has no relationship with profitability. Likewise, the results revealed that risk management has no effect on profitability.

Keywords: Board attributes, Risk management, Firm profitability, Developing Economies

Artikel ini bertujuan untuk memberikan kontribusi besar pada bidang tata kelola perusahaan untuk kemudian terlibat dalam tren baru yang menguji peran atribut dewan sebagai mekanisme tata kelola perusahaan untuk mengetahui apakah perusahaan non-keuangan di negara berkembang akan mendapat manfaat dari mekanisme ini dalam dampaknya. dari profitabilitas perusahaan. Dengan demikian, penelitian ini menguji 100 perusahaan non-keuangan berdasarkan laporan tahunan mereka di tahun 2020 sebagai studi cross sectional. Hasil pengujian variabel penelitian ini mengungkapkan bahwa ada hubungan negatif antara ukuran dewan direksi dan profitabilitas. Di sisi lain, hasil penelitian menunjukkan bahwa independensi manajer tidak memiliki hubungan dengan profitabilitas. Demikian juga, hasil penelitian mengungkapkan bahwa manajemen risiko tidak berpengaruh terhadap profitabilitas.

Kata Kunci: Atribut Dewan, Manajemen Risiko, Profitabilitas Perusahaan, Ekonomi Berkembang

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INTRODUCTION

It is known through researches done in the whole world that corporate governance (CG) is known as a great instrument in assessing the firms' ability of being functional and strong ((Alabdullah, Yahya & Ramayah, 2014; Alabdullah, et al., 2014; Alfadhli et al., 2013; Alfadhli and Alabdullah, 2016; Crifo, Escrig-Olmedo, & Mottis, 2019). CG, together with its mechanisms and structures is very useful to monitor profitability of the firm (Alabdullah, 2019). The best CG reflects better information to make the firm reach its targets and goals; that's to reach the effective level of firm profitability (Alabdullah, 2018). This made CG strongly appear in the last few decades in several developed and developing countries. This system appeared before a hundred years but in another form as controlling role that has standards, principles and mechanisms that help different parties (e.g., Alabdullah, 2019; Ahmed, Alabdullah et al., 2020; Alabdullah, 2018; Alabdullah, 2016a, 2016b, 2016c, 2016d, 2017, 2018; Alabdullah, Laadjal, Ries, & Al-Asadi, 2018). Its mechanisms are board size, board independency, duality, gender, and ownership structure plus other internal mechanisms.

In spite of the reality that CG is a systematic controlling system that is characterized by its precise mechanisms and principles, yet there is no unified definition that expresses the concept of CG (Alabdullah, 2019; Alabdullah et al., 2014; Brickley & Zimmerman, 2010). Accordingly, there is a diversity of meanings for CG that appeared in the literature. For example, CG is considered as a control system to control and concentrate on a firm (Cadbury Report, 1992). Alabdullah et al., (2019) demonstrated that CG is also related to the link between owners and agent. They focus on the important case of CG in limiting the probable struggle between these two main parties. In line with such studies, Alabdullah, Ries, & Thottoli, (2019) and Solomon & Solomon, (2008) and Alabdullah, et al., (2018) declare that most of academics and researchers are in line with the fundamental notion that CG regulates principles and control mechanisms that aim to make the managers in the companies perform in the best attention of shareholders. As (Bai et al., 2004; Rechner & Dalton, 1989; Yermack, 1996; Zheka, 2006) reveal, CG is the link among shareholders utilized to recognize and oversee company's performance.

In the 19th century specifically, as explained by (Alabdullah, 2020; Alabdullah, Yahya & Ramayah, 2014b) there was the obvious start for knowing corporate governance (CG). The known problem is that there is a conflict and gap between managers in the companies and their owners, and as a conclusion there will be undesirable work by the management's directors that may damage the company as mentioned by (Alabdullah, 2020; Alabdullah, et al., 2019; Alabdullah, Ries, & Thottoli, 2019; Alabdullah, et al., 2018; Alabdullah, et al., 2018; Alabdullah, et al., 2016; Alabdullah, Yahya, & Ramayah, 2014b). Therefore, CG notion emerged to detect relations linked to the board, management branch directors as well as the managers independency, board size, and risk management in the firms and also to link shareholders and other heedful parties. Lastly CG is presently the core mandate for the directors and their work in whole world especially while suffering from a multi-directional pandemic and its serious impacts on the economy, and social and environmental situations (Alabdullah, et al., 2020). Bad practices of CG are a result of poor firm's profitability and consequently may increase the negative impact of the global crises and might increase the fraud and manipulations (Hebble & Ramaswamy, 2005;

Brennan & Solomon, 2008).

Several studies such as [Widiatmika and Darma, \(2018\)](#) admitted that there is a kind of absence in testing deferent variables of good corporate governance that probably have an impact on the company's profitability. There is a concern in the previous studies towards good practices of CG in the last years in emerging economies (e.g., [Alabdullah, 2016a, 2016b, 2016c, 2017, 2018, 2020; Alabdullah, Laadjal, Ries, & Al-Asadi, 2018; Alabdullah, Ries, & Nor, 2019; Alabdullah, Ries, & Thottoli, 2019; Alabdullah, Nor, & Ries, 2018; Alabdullah, Yahya, Nor, & Majeed, 2016; Alabdullah et al., 2014; Alabdullah, et al., 2021](#)), whereas there is a dire requisite for offering further considerations to focus on new contributions in testing new variables. As for Jordan as a context of the present work, depending on contemporary studies, the non-financial firms in Jordan have several problems which represent serious challenges in several matters in companies listed in Amman Stock Exchange (ASE). For instance ([Mensi, Tiwari & Yoon, 2017; Ahmed et al., 2020; Ahmed, Amran, & Islam, 2018; Ahmed, et al., 2018; Ahmed et al., 2019; Ahmed & Aumran, 2019; Ahmed, Islam, & Amran, 2019; Asmild et al., 2019; Ahmed et al., 2018; Ahmed, Islam, Zuqibeh, & Alabdullah, 2014; Ahmed, Islam, & Alabdullah, 2014](#)) confirmed there is a deficiency in the skills of management and in the achievements of technology towards new trends in several Jordanian listed companies. They suggested that there is distinguished problems and challenges faced by Jordanian non-financial companies that require serious intervention by academics, scholars and researchers.

The problems illustrated above characterize a call for academics and scholars to increase attention to the Jordanian companies and the need of looking for matters that help improve companies' profitability in Jordanian non-financial companies as this enhancement eventually will be a reason to achieve good economic profitability of the country as a result. Accordingly, this work is considered to be a response to what was deliberated in prior works; thus it targets at investigating the relation between CG and companies' profitability in Amman stock Exchange (ASE) in Jordan.

The relationship between CG and profitability is also investigated by [Kivaya, Kemboi and Odunga, \(2020\)](#) in SMEs companies in Nairobi via testing the impact of board size and CEO duality as a moderator in this relation and the results mentioned that there is a negative impact on profitability of such companies. Bahoo, Ahmed, Shoukat and Ahmad, (2019) investigated the link between managerial ownership and corporate governance and the impact of this relationship on firm profitability and they found that CG has notable influence via financial profitability on firm profitability. CG and sustainability have been tested by other studies. For example, [Munir, Khan, Usman and Khuram, \(2019\)](#) found that the good CG system enhances profitability and sustainability; in the long term also it will enhance firm value. CG and intellectual capital were investigated by [Susanti, Andhani and Zulaihati, \(2019\)](#) and they found that there is a positive link between them. Also another study done by [Haq, Zhao, and Rehman, \(2020\)](#) utilized several variables like independency and board size to test their impact on profitability and the findings were positive.

[Jamel, Albogami, Abdulaal, and Aljohani, \(2021\)](#) tested the effect of agency conflicts between directors and stockholders on firm risk management and financial profitability of Saudi listed companies. The results reveal that risk management rises the corporate risk management and the profitability of Saudi company. [Rangkuti, \(2020\)](#) tests the impact of Tier-1 capital

on risk management and Indonesian banks' firm performance. They show that Tier-1 capital positively affects risk management, Tier-1 capital also has a significant impact on firm financial performance with its link to risk management as a mediation predictor. The findings show that there is a positive effect of risk management on firm financial performance.

Based on the above, we predict the following hypotheses:

H1. There is a negative link between size of the board of directors and profitability.

H2. There is a positive link between managers independency and profitability.

H3. There is a positive link between risk management and profitability.

METHOD

The present work covered companies listed in ASE for 100 companies for the year 2020 as a secondary data and cross-sectional study. Accounting data was collected for all variables of the current work; independent and dependent variables. The variables are represented by growth as the dependent variable to reflect the profitability of the company and for the independent variables, we utilized board size, managers independency and risk management as corporate governance mechanisms.

RESULTS AND DISCUSSION

In this work, we used multiple regression to recognize the direct link between independent and dependent variable. As explained in Table 1, the Multicollinearity test revealed that the tolerance for the independent variables of the current study were: 0.855 for the board size; 0.8.92 for managers independency; and 0.944 for risk management. This indicates that there is no problem of Multicollinearity since the value of tolerance is more than 0.1 of all the independent variables. The findings reveal that the value of R square is 0.905 for the growth as shown in Table 2. This indicates that this value explains 90% of the independent variables (board size, managers independency and risk management) on the dependent variable which is growth.

[Table 1 about here.]

[Table 2 about here.]

After the analysis of the multiple regression, as shown in Table 3, which applies to all variables, it shows that the link between board size and profitability represented by company growth was negative ($\beta = -.917$) and for the risk management was also negative with the value of ($\beta = -.018$), while the managers' independency was positive with profitability ($\beta = 0.027$).

The investigating hypotheses of this work revealed surprising findings about the link between independent and dependent variables. There is a high negative and significant effect between board size and companies' profitability at $P < 0.00$, $\beta = -.917$.

[Table 3 about here.]

Thus, H1 is considered as unsupported hypothesis and such findings expressed that small board size is active in listed

companies in Jordan. Such a result reflects that it seems that in Jordanian non-financial companies the small board is a positive situation in enhancing firm profitability to be as such in line with the notion of agency theory which admits that small board size has its notable impact on firm profitability.

For hypothesis two, as predicted by the current study, there is a positive link between managers independency and profitability. The probable reason of such findings is that this factor is not an issue in the companies listed in Amman Stock Exchange. This reflects the notion that managers independency might be useful and might be not in this context. This work expected that risk management has a positive link with firm profitability. The findings are insignificant with $P < 0.1$, $\beta = .034$.

CONCLUSION

Corporate governance (CG) is extremely important system because the company is like a vehicle by which the majority of economy produces most of its services and goods and therefore how it is governed is definitely essential for the investors in the company that already work in the company and for the executives and eventually for the society as a whole. Therefore, it is very important for all sectors; financial and non-financial ones. It is very important to realize how companies are owned in the developed countries and those that are owned in the developing countries. Nonetheless, in general, we need to control and apply new links with profitability in most companies. There are poor results by several studies that have not tried to link corporate governance to future growth from new perspectives as the current work has done so. Therefore, we need to have influence and new mechanisms that have positive impact on firm profitability. Thus, we see indeed that the variables of the current work are structured in a different way then we all think they should be structured.

This study revealed that more independency of managers in the board, having risk management committee in the firm, and small board size lead to promote firm profitability, that is linked to what has been argued by agency theory to control conflicts via its explanation of the relationship between the three independent variables of the current study and their relationship with firm profitability. Our results admitted that there is a negative impact of the small board size on profitability in listed companies in Jordanian context. In addition, its results regarding risk management showed that there is a significant positive influence on firm profitability.

The results add to the argument about the need for testing new link among the existing variables that were tested by the previous studies but have lost the contribution to the area of corporate governance. Also it showed that independency of the managers in Jordanian companies has an insignificant link. This means that this variable is considered as a very important issue and it does matter in this context.

The limitation of this study is that it did analysis just to the non financial listed firms in Jordan and did not take into account the financial sector. Therefore, for future studies, they should test whether or not that the findings will be the same as ours because CG effectiveness is similar in all countries around the world particularly between developed and developing economies.

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LIST OF TABLES

1	Multicollinearity test.....	111
2	R Square of Growth.....	112
3	Regression Analysis	113

TABLE 1 / Multicollinearity test

Variables	Tolerance Value	VIF
Board size	0.855	1.175
Managers independency	0.892	1.046
Risk management	0.944	1.027
Csize	.878	1.139

TABLE 2/ R Square of growth

Model	Growth
R Square	0.905
Sig F Change	.000

TABLE 3/ Regression Analysis

Growth		
Stand. Coeff.		
Variables	Beta	Sig.
Board size	-0.917***	0.000
Managers independency	0.027	0.417
Risk management	-0.018	0.318
Csize	.012	.749

Sig. *p < .10.. **p < .05... ***p < .01