THE IMPACT OF GOOD CORPORATE GOVERNANCE PRACTICES ON FINANCIAL REPORTING QUALITY: EMPIRICAL EVIDENCE FROM JORDANIAN LISTED COMPANIES

Khaled Erieg Abu-Risheh*, Mo'taz Amin Al-Sa'eed**

Abstract

The main objective of this paper is to analyze the relationship between the good corporate governance practices on the financial reporting quality of Jordanian listed companies. Specifically, we focus on the board's independence, board's transparency, and separate audit committee. A listing of Share -Traded Jordanian Companies was available from the Amman Stock Exchange as of 31 December 2011. A total of (167) company shares were traded as of 31 of December 2011. It was decided to distribute (160) questionnaires to the related external auditors, the expertise members of the Audit Committees, and the Jordanian regulatory bodies that oversight the corporate reporting of those companies, which include the Jordanian Securities Commission, Insurance Commission, and Central Bank of Jordan. The empirical study is realized based on a sample of the companies listed on the Amman Stock Exchange. Our research results shows that the good corporate governance practices impact the financial reporting quality, were Independence is considered one of the determinants of the success of financial reporting quality (T = 3.709, 008) and (R= 0.676), in addition to that; the independent variables are able to explain the variance in the dependent variable, a multiple regression test was carried out to test the relationship between board of directors' transparency, board of directors' independence, and audit committees, and financial reporting quality (FRQ), they are able to explain nearly 0.805% (R=0.805% P< 0.000) of the variance in financial reporting quality. The correlation analysis allows testing the strength of relationships between several independent variables and one dependent variable, which is the case in this study. The results of correlation analysis shows that the relationships between board of directors' transparency, board of directors' independence, and separate audit committees, and the dependant variable which is financial reporting quality (FRQ), are significant.

Keywords: Corporate Governance, Financial Reporting, Independence, Transparency, Audit Committee

** Accounting and AIS Department, Al-Balqa' Applied University, Amman – Jordan*
E-mail: khaledrisha@yahoo.co.uk
*** Accounting and AIS Department, Chairman, Al-Balqa' Applied University, Amman – Jordan*
Tel.: 00962-79-7049444.
E-mail: motazalsaid@yahoo.com

1 Introduction

The effect of the introduction of corporate governance rules as results of mandatory application to all companies with securities listed on the Amman Stock Exchange was the main stimulus to carry out this research. The research includes the investigation on the type of corporate governance exercised by Jordanian Listed companies during the period when these rules were introduced and the characterization of the relationship between the financial reporting quality submitted by Jordanian Listed companies and the associated level of corporate governance practices. This study proposes that Good Corporate Governance (GCG) helps to enhance the quality of financial reporting of the Jordanian Listed Companies. Transparency, independent directors and a separate audit committee are especially important. Some international investors will not seriously consider investing in a company that does not have these things. Several organizations have popped up in recent years to help adopt and implement good corporate governance principles in accordance to the Jordan Securities Commissions Requirements. The Organization for Economic Cooperation and Development, the World Bank, and the International Finance Corporation, encourage Jordan to adopt and implement corporate codes of conduct and good corporate governance principles. Rules of corporate governance have become one of the most important issues discussed in the world economies. They present an important factor that reinforces the success of economic and organizational reforms currently undertaken in the context of globalization; openness of economies towards each other; global competition; and in light of conditions and requirements of international organizations for accepting membership to countries or for dealing with countries of the world and with institutions and markets of these countries. Applying these rules and principles has become essential for public and private sectors, and a tool for enhancing confidence in any national economy and an evidence of the existence of fair and transparent polices for protecting investors and traders alike. It is also an indication to the level of professional commitments reached by the companies' managements towards good governance, transparency and accountability, the existence of measures to limit corruption, and consequently raise the economy's attractiveness to local and foreign investments and enhancing its competitiveness. This guide was prepared in view of the development of the national economy at all levels, and in line with the Jordan Securities Commission (JSC)'s efforts to develop Amman Stock Exchange and its regulatory and organizational framework. It contains rules of corporate governance for shareholding companies listed at Amman Stock Exchange (ASE) for the purpose of establishing a clear framework that regulates their relations and management and defines their rights, duties and responsibilities in order to realize their objectives and safeguard the rights of all stakeholders.

The aim of this paper is to contribute to the study of the influence of good corporate governance practices on the financial reporting quality in Jordanian Listed Companies. (McGee, 2010) has conducted a study in the Jordanian Banks depending on the corporate governance topics which discussed in the World Bank's ROSC Report that classified a questionnaire into categories based on the extent of compliance with the OECD's Principles of Corporate Governance (OECD 2004). (Rezaee, et al, 2003) stated that good corporate governance promotes relationships of accountability among the primary corporate participants and this may enhance corporate performance as it holds management accountable to the board and the board accountable to the shareholders. One of the best-known definitions of corporate governance is to be found in the Report of the Committee on the Financial Aspects of Corporate Governance: Corporate governance is the system, by which companies are directed and controlled, so that; boards of directors are responsible for the governance of their companies. Also corporate governance could be defined as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accountability with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders. Corporate governance has received much attention in recent years. In this paper, we are interested in the good corporate governance tools that can influence the quality of financial reporting. Particularly, we focus on the Transparency, independent directors and a separate audit committee. In what follows, we provide a survey of the theoretical and empirical literature about the link between good corporate governance and the financial reporting quality. First, the emphasis was placed on the composition of the board of directors. (Beasley, 1996) argued that the probability of detecting financial statement fraud in the American firms decreases with the percentage of outside directors. (Peasnell et al., 2000) and (Klein, 2002) revealed that the independent board mitigates earnings management. The increasing volume of research on corporate governance is due to the global financial crisis, which was partly blamed on corporate governance issues and led to urgent analysis to help guide corporate governance reforms. Theoretical works suggest that good corporate governance of Jordanian Listed Companies requires a well-built framework. The next section of this paper identifies the study problem; Section 3 identifies literature reviews on corporate governance and financial reporting. Section 4 presents the methodology and results of the study. Finally, section 5 offers some conclusions and recommendations.

2 Problem Definitions

(Bushman et al., 2004), (Vafeas, 2005) and (Karamanou and Vafeas, 2005)advanced that the information quality increases with the percentage of outside directors. Similarly, (Beekes et al, 2004) noticed that the board independence allows disclosing information of good quality by the firms in the United Kingdom. In other contexts, (Firth et al., 2007) indicated that the presence of independent directors improves the earnings quality of Chinese firms. (Dimitropoulos and Asteriou, 2010) confirmed this finding for a sample of Greek firms. In contrast, other studies suggested that the independent directors are not enough competent to control the managers and their presence in the board has no effect on the reporting quality .(Petra ,2007) for American firms, (Bradbury et al.,2006) for Singapore and Malaysian firms and (Ahmed et al.,2006) for New Zealand firms . In addition to that, the corporate governance literature has emphasized the need to separate the positions of CEO (chief executive officer) and board chairman to guarantee the board independence and improve the firm transparency (Jensen, 1993). (Byard et al., 2006) indicated that the presence of a CEO who serves also as the board chairman is associated with poor quality of financial information. Similarly, (Beekes et al., 2004) and (Firth et al., 2007) reported that the financial reporting is more relevant in the case of separating the positions of CEO and board chairman for British and Chinese firms. Nevertheless, other authors did not detect a significant association between CEO duality and information quality in various contexts of studies (Ahmed et al., 2006; Bradbury et al., 2006; Petra 2007). (Beasley, 1996) argued that the probability of detecting financial statement fraud in the American firms decreases with the percentage of outside directors. (Peasnell et al., 2000) and (Klein, 2002) revealed that the independent board mitigates earnings management.

Based on the above, this study is aiming to answer the following statement, which represents the study question:

"Do Good Corporate Governance Practices have impact on Financial Reporting Quality in the Jordanian listed Companies?"

To answer the study question, the following sub-questions have been emerged:

1 - Does the board of director's transparency have impact on Financial Reporting Quality in the Jordanian listed Companies?"

2 - Does the board of director's Independence have impact on Financial Reporting Quality in the Jordanian listed Companies?"

3 - Does the Separate Audit Committees have impact on Financial Reporting Quality in the Jordanian listed Companies?"

3 Literature Review

Many related and relevant literatures have discussed the issue of financial reporting quality and its relationship with corporate governance. As referred by (Cohen et al., 2004) one of the most important functions of corporate governance is to ensure the quality of the financial reporting process. According (Sloan, 2001) the financial information is the first source of independent and true, communication about the performance of company managers. This relevance makes the financial reporting as the main attraction to management influence. The paper of (Bushman and Smith, 2001) refers to the dual role of financial accounting systems. The financial accounting system provides direct inputs to corporate control mechanisms; on the other hand it provides indirect inputs into corporate control mechanisms, by its contribution to the information contained in stock prices. The financial accounting information is the product of corporate accounting and external reporting systems that measure and publicly disclose audited, quantitative data concerning the financial position and performance of publicly held firms. The board of directors is regarded as the highest control mechanism that is accountable for monitoring the actions taken by the top executive of the firm (Fama and Jensen, 1983). Although they satisfy numerous regulatory requirements they exist primarily because of conflicts of interest they help to address (Hermalin and Weisbach, 2003). The exercise of the function of monitoring by the board of directors is connected with its composition. (Fama,1980) and (Fama and Jensen ,1983) show that its composition is an important factor to build a council to monitor under effective mode the actions developed by the management. These authors assert that it is natural that the more dominant members of the board are those who are also inside managers, because they have specific and measurable information about the activities of the organization. The supremacy of inside members of the board of directors is a factor that can create conditions for the occurrence of wealth transfer from shareholders to managers of the firm (Fama, 1980). Thus, the inclusion of external members to the board of directors permits them to act as arbitrators in disagreements between members that are inside and aims to confirm the decisions involving the agency problems with more complexity. Therefore, (Fama, 1980), (Fama and Jensen, 1983) suggest as hypothesis that the viability of the board of directors as mechanism of internal control is linked to the inclusion of external members. As shown in (Hermalin and Weisbach, 2003), the major conflict of interest within the boardroom is between the CEO and the directors. The CEO has incentives to “capture” the board; so as to ensure that he can keep his job and increase his flow of rents. Directors have at least some incentives to monitor the CEO and to replace him if his performance is poor. The researchers posit that the evolution of the board over time is dependent of the nature of the bargaining position of each side in this conflict.

Another research sector analyses the importance of the independence level of the board. (Cheng and Courtenay, 2006) provide evidence that firms with a high proportion of independent directors have significantly higher level of disclosure compared to companies with other types of boards of directors. However the paper of (Srinivasan, 2005) arrives at other kind of conclusions showing evidence that independent directors are subject to higher reputation costs in the event of a fault detected in the financial information submitted by the company. In addition to that (Al-Sa'eed, 2011) has tested the relationship between the Commitment to Corporate Governance, Functions of the Board of Directors, Board Committees, Control Environment, and Transparency and Disclosure codes, and the Reduction of the global financial crisis implications; it was found that independent variables are significantly able to explain the variance in Reduction of the global financial crisis implications, also it was found that Corporate Governance's Principles have reduced the implications of the global crises on the Jordanian Banking Sector. (Rezaee, et al, 2003) stated that good corporate governance promotes relationships of accountability among the primary corporate participants and this may enhance corporate performance as it holds management accountable to the board and the board accountable to the shareholders. (Filatotchev et al, 2003) have suggested that excessive management control and ignorance of the governance process is causing problems that could be reduced by increasing the influence of outside directors. Several studies have been done on various aspects or components of corporate governance. A code of best practice was published in December 1992 (The Cadbury Code) which included recommendations for companies to establish audit committees comprising independent non-executive directors (Power, 2002). In the USA an increasing number of earnings restatements by publicly traded companies, coupled with allegations of financial statement fraud and lack of responsible corporate governance of high profile companies (e.g. Enron, Global Crossing, World com in the USA, Parmalat in Italy and MacMed, Masterbond and Leisurenet in South Africa) has sharpened the ever increasing attention on corporate governance in general and audit committees in particular. The fall of these companies raised concerns regarding the lack of vigilant oversight by their boards of directors and audit committees in the financial reporting process and auditing functions (Rezaee et al, 2003). (Kay and Silberston,1997) suggest a “trusteeship” model of corporate governance that emphasizes “the evolutionary development of the corporation around its core skills and activities corporate governance is about finance, about the relationship between employees, shareholders and management and about the evolutionary development of the core skills and activities of the corporation. In his study (Al-Sa'eed, 2011) has found that the compliance with Jordan Securities Commission requirements that based on (OECD) principles of corporate governance has been evaluated as the most effective feature that influence the financial reporting in the Jordanian share-traded companies, audit quality, internal control effectiveness, and understanding of AC's functions are coming next respectively. The government regulated deposit insurance and the implicit guarantee that large banks will be bailed-out by the government in order to avoid bank runs and hence maintain financial system stability, reduce the efficiency of corporate governance mechanisms (Berlin et al, 1991). (Farber, 2005) also shows that there is an association between the credibility of the financial reporting system and the quality of corporate governance mechanisms. Specifically, firms in which the boards of directors have fewer members and a greater proportion of external members have a lower propensity for the occurrence of fraud.

Hypotheses Development:

This study proposes that Good Corporate Governance (GCG) helps to enhance the quality of financial reporting of the Jordanian Listed Companies. Transparency, independent directors and a separate audit committee are especially important. After reviewing the related literatures, and based on the study objectives and problem definition; the following null hypothesis model has been developed in order to test the impact of the study variables as follows:

"Good Corporate Governance Practices do not have impact on Financial Reporting Quality in Jordanian listed Companies."

Sub-hypotheses have been developed as follows:

H °1: The board of director's transparency does not have impact on Financial Reporting Quality in the Jordanian listed Companies.

H °2: The board of director's Independence does not have impact on Financial Reporting Quality in the Jordanian listed Companies.

H °3: The board of director's Separate Audit Committees does not have impact on Financial Reporting Quality in the Jordanian listed Companies.

4 Methodology and Results

Data collection

Based on the aim of the study and review of the literature, the study attempted to answer the following research question: "Do Good Corporate Governance Practices have impact on Financial Reporting Quality in the Jordanian listed Companies?" A postal questionnaire survey was deemed the most appropriate research tool to answer the above question. It is an effective tool to seek opinions, attitudes and descriptions about Good Corporate Governance Practices (GCG) in terms of the board of director's transparency, the board of director's Independence, and the board of director's Audit Committees. A listing of Share -Traded Jordanian Companies was available from the Amman Stock Exchange as of 31 December 2011. A total of (167) company shares were traded as of 31 of December 2011. It was decided to distribute the questionnaires to the related external auditors, the expertise members of the Audit Committees, and the Jordanian regulatory bodies that oversight the corporate reporting of those companies, which include the Jordanian Securities Commission, Insurance Commission, and Central Bank of Jordan, with confidence level of 95% and internal level of (10). The response rate of the distributed questionnaires survey was (82%), where only (131) out of (160) questionnaires were returned.

Data analysis and research findings

Table 1. Demographic characteristics of research respondents

		Frequency	Percent %	Valid Percent %	Cumulative Percent
AGE	25-30	5	4.00	4.00	4.00
	31-35	34	26.00	26.00	30.00
	36-40	53	40.00	40.00	70.00
	More than 40	39	30.00	30.00	100.0
	Total	131	100.0	100.0	
		Frequency	Percent %	Valid Percent	Cumulative Percent
EDUCATION	Bachelor	57	44.00	44.00	44.00
	Master	65	50.00	50.00	94.00
	PhD	9	6.00	6.00	100.0
	Total	131	100.0	100.0	
		Frequency	Percent %	Valid Percent	Cumulative Percent
Field of Socialization	Accounting	76	58.00	58.00	58.00
	Finance	24	18.00	18.00	76.00
	Business	17	13.00	13.00	89.00
	Economic	8	6.00	6.00	95.00
	Other	6	5.00	5.00	100.00
	Total	131	100.0	100.0	
		Frequency	Percent %	Valid Percent	Cumulative Percent
EXPERIENCE	1-5 YEARS	9	7.00	7.00	7.00
	6-10	18	14.00	14.00	21.00
	11-15	56	43.00	43.00	64..00
	More than 15	48	36.00	36.00	100.0
	Total	131	100.0	100.0	

Based on table (1); the majority of respondents (79 %) have between (11) and more than (15) years of experience. Amongst the respondents there were four discrete categories of age groups, the range of age groups was 25 to more than 40 years, with the majority aged between 31 to more than 40 years old (126 respondents). This indicates that our respondents can provide objective and deep data that enriches the research results. Of the research sample, 57 respondents hold bachelor’s degree, and 65 respondents hold a master’s degree, 9 respondents hold a PhD in related fields who are represents the senior and expert persons. Therefore; more likely the research sample has sufficient level of education to respond to research questionnaire. (95 %) of the respondents have the field of specialization in related fields to the administration sciences and economics, which enables them to handle the research questions in depth and have a good understanding of the research questionnaire item, so that; they are most likely to respond to the research questionnaires without any difficulties.

To test hypothesis the research hypothesis number, correlation analysis was used to examine the strength of the relationships between independent variables: Board of directors' transparency, board of directors' independence, and audit committees, and the dependant variable which is financial reporting quality (FRQ). The correlation analysis allows testing the strength of relationships between several independent variables and one dependent variable, which is the case in this study. The results of correlation analysis (see Table 2) shows that the relationships between board of directors' transparency , board of directors' independence, and audit committees, and the dependant variable which is financial reporting quality (FRQ), are significant on .01 level of significant (P-Value=.000 < .01). Thus, further analysis becomes possible to examine the amount of variance in the dependent variables that can be explained by independent variables.

Table 2. Pearson correlation coefficients between the research variables

Variables		BOIND	BOTRANS	AC	FRQ
Board's Independence	Pearson Correlation	1	.426(**)	.471(**)	.676(**)
	Sig. (2-tailed)	.	.000	.000	.000
	N	131	131	131	131
Board's Transparency	Pearson Correlation	.426(**)	1	.326(**)	.577(**)
	Sig. (2-tailed)	.000	.	.001	.000
	N	131	131	131	131
Audit Committees	Pearson Correlation	.471(**)	.326(**)	1	.511(**)
	Sig. (2-tailed)	.000	.001	.	.000
	N	131	131	131	131
Financial Reporting Quality	Pearson Correlation	.676(**)	.577(**)	.511(**)	1
	Sig. (2-tailed)	.000	.000	.000	.
	N	131	131	131	131

** Correlation is significant at the 0.01 level (2-tailed).

Regression Analysis

In order to test if the independent variables are able to explain the variance in the dependent variable, a multiple regression test was carried out to test the relationship between board of directors' transparency, board of directors' independence, and audit committees, and financial reporting quality (FRQ), (See table:3) they are able to explain nearly 0.805% (R=0.805% P< 0.000) of the variance in financial reporting quality. This indicates that there is a significant positive relationship between board of directors' transparency, board of directors' independence, and audit committees, and the dependant variable. Thus, we reject the null hypotheses that assumed there are no significant relationship between board of directors' transparency, board of directors' independence, and audit committees, and the financial reporting quality (FRQ). The coefficients factors and T value at 0.05 level of significant support this suggestion (3-709, .008), (2.768, 0.000), and (2.723, .008).

Table 3. Regression analysis of research variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.805(a)	.618	.602	3.9214

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2667.705	6	531.572	36.763	.000(a)
	Residual	1667.255	124	20.212		
	Total	4334.960	130			

a Predictors: (Constant), BOIND,BOTRANS, AND AC.

b Dependent Variable: FINANCIAL REPORTING QUALITY (FRQ).

Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-9.338	5.429		-1.729	.076
	BOIND	.501	.176	.259	3.709	.008
	BOTRANS	.219	.066	.261	2.768	.000
	AC	.359	.169	.191	2.723	.008

a : Dependent Variable: FINANCIAL REPORTING QUALITY(FRQ)

5 Conclusions and Recommendations:

The main objective of this paper is to analyze the relationship between the good corporate governance practices on the financial reporting quality of Jordanian listed companies. The empirical study is realized based on a sample of the companies listed on the Amman Stock Exchange. Our research shows that good corporate governance practices have impact on the financial reporting quality, were Independence is considered one of the determinants of the success of financial reporting quality (T = 3.709, 008) and (R= 0.676), in addition to that; the independent variables are able to explain the variance in the dependent variable, a multiple regression test was carried out to test the relationship between board of directors' transparency, board of directors' independence, and audit committees, and financial reporting quality (FRQ), they are able to explain nearly 0.805% (R=0.805% P< 0.000) of the variance in financial reporting quality. The correlation analysis allows testing the strength of relationships between several independent variables and one dependent variable, which is the case in this study. The results of correlation analysis shows that the relationships between board of directors' transparency , board of directors' independence, and separate audit committees, and the dependant variable which is financial reporting quality (FRQ), are significant on .01 level of significant (R = 0.676 ,P < 0.00), (R = 0.577 ,P < 0.00) and (R = 0.511 ,P < 0.00) respectively. Thus, we reject the null hypotheses that assumed there are no significant relationship between board of directors' transparency, board of directors' independence, and audit committees, and the financial reporting quality (FRQ). The coefficients factors and T value at 0.05 level of significant support this suggestion (3.709, .008), (2.768, 0.000), and (2.723, .008). These results are lined and supported by (Rezaee, et al, ,2003) who has stated that good corporate governance promotes relationships of accountability among the primary corporate participants and this may enhance corporate performance as it holds management accountable to the board accountable to the shareholders. On the other hand our results were supported by (Bushman et al., 2004), (Vafeas, 2005) and (Karamanou and Vafeas, 2005) who advanced that the information quality increases with the percentage of outside directors. Similarly, (Beekes et al, 2004) noticed that the board independence allows disclosing information of good quality by the firms. Specifically our results show that the board of director's transparency, board of director's independence, and audit committees do impact the financial reporting quality of Jordanian listed companies.

Supporting to our results; (Firth et al., 2007) indicated that the presence of independent directors improves the earnings quality of Chinese firms. (Dimitropoulos and Asteriou ,2010) confirmed this finding for a sample of Greek firms, (Petra ,2007) for American firms, Bradbury et al. (2006) for Singapore and Malaysian firms and Ahmed et al. (2006) for New Zealand firms. In contrast, other studies suggested that the independent directors are not enough competent to control the managers and their presence in the board has no effect on the reporting quality. This is why we were in our study tested the other two independent variables (transparency and separate audit committee) which play a significant and compensating role in offering a high quality financial reporting, this analysis is well evidenced by our results. In addition to that, the corporate governance literature has emphasized the need to separate the positions of CEO (chief executive officer) and board chairman to guarantee the board independence and improve the firm transparency (Jensen, 1993). (Byard et al., 2006) indicated that the presence of a CEO who serves also as the board chairman is associated with poor quality of financial information, which means that the (CEO) should be independent from the board. Similarly, (Beekes et al., 2004) and (Firth et al., 2007) reported that the financial reporting is more relevant in the case of separating the positions of CEO and board chairman for British and Chinese firms. Nevertheless, other authors did not detect a significant association between CEO duality and information quality in various contexts of studies (Ahmed et al., 2006; Bradbury et al., 2006; Petra 2007). However; (Beasley, 1996) argued that the probability of detecting financial statement fraud in the American firms decreases with the percentage of outside directors. Also our results are lined with (Peasnell et al., 2000) and (Klein, 2002) who revealed that the independent board mitigates earnings management. In the light of the above supporting results; our study in addition to the independence variable shows that the Board's transparency and Separate Audit committees play a crucial role in enhancing the financial reporting quality , were the coefficients factors and T value at 0.05 level of significant support this result (2.768, 0.000) and (2.723, .008). Furthermore; as referred by (Cohen, et al., 2004) one of the most important functions of corporate governance is to ensure the quality of the financial reporting process. The inclusion of external members to the board of directors permits them to act as arbitrators in disagreements between members that are inside and aims to confirm the decisions involving the agency problems with more complexity, this analysis is supported and lined with (Cheng and Courtenay, 2006) who provide evidence that firms with a high proportion of independent directors have significantly higher level of disclosure compared to companies with other types of boards of directors. However the paper of (Srinivasan, 2005) arrives at other kind of conclusions showing evidence that independent directors are subject to higher reputation costs in the event of a fault detected in the financial information submitted by the company. Base on our results concerning the transparency impact, which means that the adhering to the good corporate governance practices substantiates the management controls over the financial reporting process; this result is coming along with (Filatotchev et al, 2003) who suggested that excessive management control and ignorance of the governance process is causing problems that could be reduced by increasing the influence of outside directors. When Separate Audit committee is coming together with an independent and transparent board provides a basis for improving the financial reporting quality, this result comply with the code of best practice was published in December 1992 (The Cadbury Code) which included recommendations for companies to establish audit committees comprising independent non-executive directors. In the USA an increasing number of earnings restatements by publicly traded companies, coupled with allegations of financial statement fraud and lack of responsible corporate governance of high profile companies (e.g. Enron, Global Crossing, World com in the USA, Parmalat in Italy and MacMed, Masterbond and Leisurenet in South Africa) has sharpened the ever increasing attention on corporate governance in general and audit committees in particular. Also (Al-Sa'eed, 2011) has found that the compliance with Jordan Securities Commission requirements has been evaluated as the most effective feature that influence the financial reporting in the Jordanian share-traded companies. (Farber, 2005) also shows that there is an association between the credibility of the financial reporting system and the quality of corporate governance mechanisms. Specifically, firms in which the boards of directors have fewer members and a greater proportion of external members have a lower propensity for the occurrence of fraud. Overall, our study supports the argument that the good corporate governance practices affect the financial reporting quality in Jordanian context. However, further research is necessary to provide additional insight into the role of corporate governance and the reporting quality in the Jordanian Companies. First, it would be appropriate to verify these findings by concentrating on the financial institutions such as the banks. Then, it would be worthwhile to incorporate other governance variables such as the managerial ownership, board's size, composition and number of meetings, or other measures of information quality such as the voluntary disclosure. It would be also very interesting to determine if the good corporate governance practices and the reporting quality influence the cost of capital of the Jordanian companies. Finally, we suggest investigating the link between corporate governance and financial reporting quality in other regional emerging markets. At the end; this study recommends the Managements of Jordanian Listed Companies to be more adhere to the good corporate governance practices, with appointing an expertise members in the board's committees especially in the audit committees, the need to separate the positions of CEO (chief executive officer) and board chairman to guarantee the board independence and improve the firm transparency , in addition to that; establishing a high profiled and equipped Public Companies Accounting Oversight Board (PCAOB) to ensure that all of external auditors, board of directors, and managers are adhered and committed to the good corporate governance practices and so leverage the financial reporting quality.

References

1. Ahmed, K. et al. (2006). "The Effects of Board Composition and Board Size on the Informativeness of Annual Accounting Earnings. Corporate Governance: An International Review, Vol. 14, No. 5, pp. 418-431.
2. Anderson. N, R C., et al. (2004): "Board characteristics, accounting report integrity, and the cost of debt". Journal of Accounting and Economics, Vol. 37, No. 3, pp. 315-342.
3. Al-Sa'eed, M. A. (2011). "Evaluation of the audit committee features and the manner they influence the financial reporting: Evidence from Amman Stock Exchange". ECMLG 2011, France –Nice (6-7 October 2011), Conference Accepted Paper.
4. Al-Sa'eed..M. A. (2012). "The Role of Corporate Governance on the Reduction of the Global Financial Crisis Implications: Evidence from Banking Sector of Jordan". International Journal of Business and Management, Vol. 7. No.1.Macrh 2012.
5. Beasley, M. S. (1996). "An empirical analysis of the relation between the board of directors' composition and financial statement fraud". The Accounting Review 71: 443-465.
6. Beekes, W., et al.. (2004)." The link between Earnings Timeliness, Earnings Conservatism and Board Composition: evidence from the UK. Corporate Governance". An International Review, 12, 47-59.
7. Berlin, M., Saunders, A., & Udell, G. (1991). "Deposit insurance reform: what are the issues and what needs to be fixed?". Journal of Banking & Finance, Vol (15), No (2). 735- 752.
8. Bradbury, M., Mak, Y. & Tan, S. (2006). "Board characteristics, audit committee characteristics and abnormal accruals". Pacific Accounting Review, Vol. 18, pp. 47-68.
9. Bushman.R.M. and Smith. A.J. (2004). "What Determines Corporate Transparency?" Journal of Accounting and Economics. Vol. 42. No. 2. pp. 207-252.
10. Byard, D., et al. (2006). "Corporate Governance and the Quality of Financial Analyst’s Information". Journal of Accounting and Public Policy, 25, 609-625.
11. Cadbury Committee, (1992). "Report of the Committee on the Financial Aspects of Corporate Governance". London, U.K.
12. Cheng, E. C. M, and Courtenay S. M. (2006). "Board Composition, Regulatory Regime and Voluntary Disclosure”, International Journal of Accounting, Vol. 41, pp.262-289.
13. Cohen, et al. (2004). "Corporate Governance Mosaic and Financial Reporting Quality', Journal of Accounting Literature. 2004.
14. Dimitropoulos, P. E., and D., Asteriou, (2010). "The Effect of Board Composition on the Informativeness and Quality of Annual Earnings: Empirical Evidence

from Greece", Research in International Business and Finance, pp. 190-20.
15. Fama, E., and M. Jensen. (1983). "Agency problems and residual claims". Journal of Law and Economics 26 (June): 327-349.
16. Fama, E. (1980). "Agency Problems and the Theory of the Firm, Journal of Political Economy". 88, 280-307.
17. Farber, D. B. (2005). "Restoring trust after fraud: does corporate governance matter? » The Accounting Review, Vol. 80, No. 2, April, pp. 539-561.
18. Filatotchev, I., M. et al. (2003). "Governance, Organizational Capabilities, and Restructuring in Transition Economies". Journal of World Business, 38(4), 331-347.
19. Filatotchev, I., T. Buck and V. Zhukov. (2000). "Downsizing in Privatized Firms in Russia, Ukraine, and Belarus". Academy of Management Journal, 43(3), 286-304.
20. Firth, M., et al, (2007). "Ownership, two-tier Board Structure, and the Informativeness of Earnings: Evidence from China". Journal of Accounting and Public Policy, Vol. 26, No. 4, pp.463-496.
21. Gospel. H & Pendleton. A., (2005). "Corporate Governance and Labor Management: An International Comparison.
22. Hermalin B. E. &. Weisbach, M. S. (2003). "Boards of directors as an endogenously determined institution: a survey of the economic literature". Economic Policy Review, Federal Reserve Bank of New York, issue Apr, pages 7-26.
23. Jensen, M. (1993), "Presidential address: the modern industrial revolution, exit and the Failure of internal control systems", Journal of Finance, 48, pp. 831-880.
24. Karamanou, I and N. Vafeas, (2005). "The Association between Corporate Boards, Audit Committees, and Management Earnings Forecasts: An Empirical analysis', Journal of Accounting Research, Vol. 43, pp 453-486.
25. Kay. J and Silberston. A. (1997). "Corporate governance' in Fiona Macmillan Patfield (ed), Perspectives on Company Law": (London, Kluwer Law International, 1997), p. 61.
26. Klai. N and Omri. A. (2011)." Corporate Governance and Financial Reporting Quality: The Case of Tunisian Firms ". International Business Research. Vol.4. No. 1; January 2011. www.ccsenet.org/ibr.
27. Klapper, Leora F. and Inessa Love. (2002). "Corporate Governance, Investor Protection and Performance in Emerging Markets. Social Science Research Network Working Paper No. 303979, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=303979.
28. Klein, A. (2002). "Audit Committee, board of director characteristics, and earnings 186Management". Journal of Accounting and Economics 33, 375-400.
29. Leuz, C. and Verrecchia, R. (2005)." Firms' Capital Allocation Choices, Information Quality, and the Cost of Capital". Working paper, University of Pennsylvania
30. McGee .Robert W. (2010). "Corporate Governance in Transition and Developing Economics : A Case Study of Jordan" . Florida International University. Working Paper August 2010. Available Online at: http://ssrn.com/abstract=1665089.
31. OECD, Principles of Corporate Governance (Paris: OECD, 2004), 11. Available online at: www.oecd.org/daf/corporateaffairs/principles/text.
32. Peasnell, K.V., et al., (2000). "Accrual Management to meet earnings targets: UK evidence pre- and post-Cadbury". British Accounting Review (2000) 32,415-445.
33. Petra, S. (2007). "The Effects of Corporate Governance on the Informativeness of Earnings". Economics of Governance, 8, 129-152.
34. Power, M. (2002). «The audit society». Oxford University press, London.
35. Rezaee, R., Olibe, K.O and Minmier, G. (2003). "Improving corporate governance: The role of audit committees». Managerial Auditing Journal, Vol (18), No (6/7):530 -537.
36. Sloan, R. G. (2001): " Financial accounting and corporate governance: a discussion". Journal of Accounting and Economics. Vol. 32, No. 1, pp. 335–347.
37. Srinivasan, T.N. (2005a). "Productivity and Economic Growth," paper presented at the Annual Conference of Pakistan Society for Development Economics, Islamabad, Pakistan. December 19-21, 2005.
38. Vafeas, N. (2005). "Audit Committees, Boards and the Quality of Reported Earnings. Contemporary Accounting". Research, 22, 1093-112.