"Relationship Between Corporate Governance and Financial Performance of Jordanian Commercial Banks"

by

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"Submitted in Partial Fulfillment of the Requirements for the Master's Degree of Banking and Finance at Yarmouk University"

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2007
Abstract

This study explores the relationship between good governance indicators and the financial performance in Jordanian commercial banks for the period of 2000-2005. A survey questionnaire has been developed with a sample of the Jordanian commercial banks in order to find commercial banks compliance to the indicators of good governance, which considered independent variables, and bank performance as dependent variable measured by Return on Assets, Return on Equity, Price- Earning Ratio, and Earnings per Share. Multiple regression was used in the analysis to find the relationship between the dependent and independent variables. The results indicated that good governance affect performance. The results show a significant positive relationship between good governance and
financial performance when measured by earnings per share, price earning ratio, however the result shows no significant relationship between good governance and the remaining two variables. Also the result indicates that bank size do matter when studying the relationship between governance indicators and financial performance. The study recommends that Jordanian commercial banks should focus on improve their corporate governance practices, which will enhance their performance. Excessive efforts should be exerted by the central bank and the commercial banks to establish a formal code of the best practice of the Jordanian banking sector, banks should disclose more accounting and financial information that will help to improve governance practices and Further investigation in this topic, extended sample, especially the other parties than bank management, other measures could be used as proxy for bank performance.

Key words: Corporate Governance, Financial Ratio, Commercial Banks, Transparency, Shareholders, Stakeholders.