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The Evolution of Corporate Governance in Jordan: A Study of Pre- and Post-2017 Reforms

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A B S T R A C T
Good corporate governance is in essence very important in designing both global trends of transparency and accountability that assure business performance. Good results include updating Jordan's regulatory framework in 2017 with the best international practice; this was a pivotal milestone in the development of Jordanian corporate governance. The study examines the changes in Jordan's corporate governance practices before and after 2017, focusing on the regulatory environment, organizational compliance, and market outcomes. The results show that implementing the new corporate governance code leads to enhancements in the rights of shareholders, the dynamics of the board, and the financial performance of the firms. The results make a strong case for good governance frameworks to facilitate sustainable economic development in emerging economies. With these challenges in mind, Jordan should continue its efforts and strengthen its corporate governance system. By doing so, Jordan is going to set an example for the regional emerging markets to follow by showing its commitment to good governance practices. The enhancement will not only help the business environment but also attract foreign investments that might bring along economic development. In this respect, reforms brought under Jordan's Corporate Governance Code 2017 have been instrumental in improving corporate governance practices, increasing transparency, and building confidence in investors. Challenges persist, though, and Jordan needs a proactive approach to get them addressed. Through such means, Jordan will be able to move further toward an improved corporate governance framework that can be aspired to by other emerging markets in the region.

JEL Classification: *G34, K22, O16, & P34*

1. Introduction

Good corporate governance is essential for the proper functioning of an economy, enabling appropriately functioning companies that protect the interests of shareholders, stakeholders, and society [19]. Being fully aware of the importance of good governance practices, Jordan has been actively working toward an improved corporate governance framework in its country, attracting foreign investment, maintaining stability in financial markets, and encouraging sustainable economic growth, resulting in a major reform: the JCGC (JCGC), promulgated at the end of 2017 [7, 12, 26]. The purpose of this paper is to examine the corporate governance regulations in Jordan, more specifically, the regulation of the JCGC as amended in 2017. In the Jordanian context, beyond the legislative and regulatory approach, corporate governance is related to the stakeholders' significance for the company and how they are treated [2]. The present study falls under the call in the emerging countries for more investigations on the issue of corporate governance. This study builds

on the fact that the diversity and scope of the research in the Jordanian context have received scant study. Enhancing the level of governance in companies is the primary challenge that capital markets face.

Some of the key areas that this code has essentially outstretched are bored composition and structure, transparency, disclosure, risk management and internal controls, and the rights of shareholders and stakeholders [12]. Jordan adopts the new JCGC in an effort to inspire a culture of transparency, integrity, and accountability in its corporate sector. This should result in confidence for investors, and ensure that there is fair competition to foster growth and value creation in a sustainable manner [4, 5, 20]. In addition, Jordan aims to gain more international recognition by aligning its corporate governance practices with international standards to lure foreign direct investment, because nowadays investors are considering opportunities only in those regions that emphasize the elements of good governance and responsible business practices [8].

In addition, the enhanced corporate governance regime in Jordan will increase the shock-absorbing capacity of Jordan's financial markets [16]. Companies in Jordan, with a very strong structure of corporate governance, are better equipped to handle various risks and problems, reduce fraud and abuse, and deal effectively with business issues [6, 21]. In so doing, this may create stability and confidence in the financial sector, thus facilitating the attraction of national and international investors [6]. In a nutshell, Jordan is committed to strengthening its framework on corporate governance, a fact that demonstrates the country's realization of good governance impetus for economic growth and investment attraction, as well as sustainability in business operations [19]. The revised JCGC represents the most important step forward by the country to bring the country's corporate governance regime closer to best international practice, with increased emphasis on transparency, accountability, and good corporate behavior [7, 12]. This is a clear reflection of Jordan's continued commitment to implementing good governance practices and the enabling environment that can foster a strong, resilient, and thriving business sector.

The study investigates in-depth the major disparities that existed in corporate governance procedures in Jordan before the year 2017, and the subsequent improvements which have been made after the same period. It identifies and then examines the main inadequacies and shortcomings that have marked the practices of corporate governance in Jordan pre-2017. Moreover, the research looks into how those deficiencies were effectively addressed by reforms introduced in 2017, and it further looks into quantifiable outcomes and challenges found with respect to the implementation of those reforms. This research should contribute to a better understanding of best practices and areas for further improvement through a wide-ranging analysis of the evolution and impact of corporate governance in Jordan.

The relevance of the paper is driven by the fact that corporate governance has soared to the main laws on companies as a result of technological developments which have allowed the markets to extend beyond the horizon in their geographical reach. The aim of this study is to determine whether the implementation of the new corporate governance regulation in Jordan will be enough to improve the operation of markets and restore investors' confidence in relation to corporate governance. The originality of the paper lies in the identification of significant corporate governance patterns.

2. Literature Review

It is essential to take into account the examination of empirical studies on corporate governance practices as a starting point for advancing knowledge on the topic. Corporate governance, as a field of financial economics, has provided wide evidence of the role of multiple determinants in solving information asymmetry tensions between shareholders and other stakeholders [5, 11, 13, 22]. Different theories in corporate governance have been developed and tested in the last decades. One of the main original theories in corporate governance is the agency theory. Its objective is to help solve agency issues that represent the conflict between managers and shareholders of a company [1, 13]. The first source of these conflicts concerns the alignment of managerial and shareholders' interests, and these conflicts may result in the direction of the company being of less interest to shareholders. In terms of the internal financing of the company, managers may choose to overinvest to expand a corporate empire, and they may choose to use cash to increase the size of the company at risk. In terms of the ability of the company to generate and retain profits in the future, managers are also more inclined to take risks and invest in high-risk large investments

[8, 10, 15]. In other words, the concept of conflict examines the use of company resources, investment policies, and financing that directly conflicts with the interests of the agency.

Other theories such as stewardship theory and critical race theory have been developed to tackle potential corporate governance conflicts. Since the work with agency theory, most corporate governance research, including the empirical research that will be reviewed in this study, has been based on cross-sectional data analysis. These data analyses have led to significant corporate governance advances such as the separation of ownership and control, with associated advantages, but the conflicts hypothesis or the theory of the set of shareholders of the firm [1, 4, 15, 17]. The theory of agency costs focuses on ownership structure, possession of the majority, and the duality of the Chief Executive and Chairman. Agency theorists argued the relation between ownership structure and corporate performance, arguing that privately owned or concentrated ownership should decrease agency costs and ensure efficient safeguarding of shareholder rights [16]. In other words, when managers are simultaneously owners or have a high proportion of shares, the agency's problem with shareholders will be less pronounced. However, the ownership structure of the company changes frequently. According to the agency theory of ownership, the most predominant ownership is the achievement of effective monitoring of managers who are agents of stockholders. Such investors have a high level of wealth in the company because they maximize the value of their shareholders. The proxy for a good manager's sorting power in the composition of the board of directors is an inefficient association that is governed. Depending on the work, the majority of the board of directors is generally better equipped to solve the issues related to agency classification.

2.1 Concept of Corporate Governance

Corporate governance is an important concept that has started to acquire its importance locally and internationally in the business sector. This significance is due to considering governance as the basis for improvement and sustainable development in companies' activities [2, 9]. The developed concept of corporate governance includes not only the legislation, regulations, and procedures that should be put in place to set the rules that govern the relationship and the balance between the board of directors, managers, investors, and other parties that represent mortgagees, guarantors of the rights of these parties, and the disclosure of the methods and policies of governance, but also a set of ethical practices and rules that rationalize, develop, organize, and maximize the role and responsibilities of each of the parties represented in the framework of governance, through procedures and applied solutions capable of achieving the goals and objectives of these parties and serving the interests of the company and society as a whole [4, 7,23]. The core of good corporate governance is to build strong rules of fairness, transparency, independence, credibility, responsibility, accountability, and flexibility in the balance of power between the company's governance parties [3, 14]. The purpose of this is to ensure the elimination of any imbalance of interests between the company's various governance parties, as the absence of any party at the expense of others could lead to the loss of the company's interests, which has many requirements that promote the dissemination of the concept of corporate governance and its practices, such as the activity of effective business management that adopts the values of responsibility, transparency, and credibility so that companies can realize their economic objectives and succeed in achieving their organizational goals [4, 11].

2.2 Corporate Governance Practices in Jordan

Jordan follows an Anglo-American model of corporate governance practice in many ways. The use of Anglo-American corporate governance practices in Jordan began long ago. With the further development of the capital market in Jordan, the need for investors, debtors, creditors, and other stakeholders to protect their investments has increased. In this context, the corporate governance system should provide a better opportunity to protect the wealth of the shareholders and creditors [16, 24]. The lack of stakeholder protection may lead to a loss of trust between them and the company [9]. Consequently, the cost of operations may increase. The global demand for assurance of the credibility of financial information has emphasized the role of corporate governance rules to strengthen the concept of fairness, trust, and integrity within the continuously widened international capital market [9]. The global financial crisis that has been recently

witnessed by many countries has highlighted the importance of corporate governance in maintaining market stability. This has drawn attention to understanding corporate governance disclosure, regulation, rules, and practices to ensure that the financial market continues to operate effectively [11, 25]. This is of crucial importance for any country. It has been universally recognized that a code of good corporate governance practices increases the confidence of potential and existing investors. The code may also serve as a vehicle for reform if it is designed to be achievable, performance-oriented, and flexible.

3. Corporate Governance in Jordan Before 2017

3.1 Regulatory Environment

The first Corporate Governance Code was enacted in 2009 and served as an important milestone in establishing basic principles of governance practices within Jordan [1, 9]. However, it also faced severe criticisms concerning the lack of an effective enforcement mechanism and the absence of comprehensive provisions related to key areas of Board independence, transparency of related-party transactions, and reporting on ESG factors [16, 19].

3.2 Key Weaknesses

Low Board Independence: Most of the boards had insiders with hardly any, if a few, independent directors to represent them, thereby causing conflicts of interest. In most cases, decisions are taken without divergent perspectives and checks and balances within the board, hence always favoring the interests of the few rather than the whole company. As such, the stakeholders may feel at a disadvantage due to the limited representation of independent directors [3, 9 ,18, 26].

Inconsistent Disclosure: The financial and non-financial disclosures were either inadequate or delayed, thus the shareholders and other stakeholders had to remain in the dark regarding the actual state of affairs relating to the company. The lack of transparency will lead to erosion of trust apart from hampering informed decisions by investors. Companies are supposed to provide timely, comprehensive disclosures to create a level playing field for all shareholders [11, 15].

Limited Shareholder Rights: It was difficult for a minority shareholder to make representations in corporate decisions. In fact, the great majority shareholders relegated the voice of the minority shareholders. As a result, the influence of shareholders on such significant decisions as appointments to the board or major transactions was very limited. Strengthening shareholder rights is an essential step toward accountability and fairness in corporate governance [16].

Weak enforcement: The regulatory bodies did not have the capacity for uniform enforcement, and there was a general laxity in oversight. This resulted in the absence of any consequences for wrongdoing in corporate conduct, deterring responsible behavior and raising the risks to which stakeholders are exposed. It is important to build up the enforcement capabilities of regulatory bodies within the context of a sound regulatory framework, which provides both accountability in corporate matters and market integrity [1, 27].

4. Reforms Introduced in 2017

In all, the 2017 reforms marked a point in the consideration of changing Jordan's corporate governance environment, with determination now directed toward full compliance with the highest possible standards set up internationally, thus remedying the weaknesses and inefficiencies inherent in the earlier framework. The reforms were developed in a way that tends to increase the strength of the corporate atmosphere, including transparency, and encourage accountability, integrity, and responsibility in business. The comprehensive reforms introduced a wide range of innovative measures, from empowerment of shareholders through enhanced independence and effectiveness of the board. These reforms provided a greater opportunity for participation by shareholders in the company's affairs and thus gave them better access to all relevant information that would support informed decisions to hold management accountable [9, 12, 16].

The reforms focused on making sure that there is indeed independence within the board through very strict and stringent criteria for appointment to that position, adding competence, diversity, skills, knowledge, and experience, which characterizes and assures that members can oversee and conduct corporate activities efficiently and effectively. Accordingly, with increased independence, boards reduce conflicts of interest, thus creating a climate of transparency and mutual trust. The 2017 reforms also aimed at enhancing the governance and functionality of board committees [9, 12, 13].

The reforms encouraged the setting up of specialized committees, such as audit and remuneration committees, to strengthen the internal control mechanisms and facilitate the effective monitoring of key areas. Such committees are made up of independent directors, a very important feature in ascertaining that the interest of the shareholders is taken care of, and financial reporting is represented accurately and reliably [12, 17].

Being cognizant of how cardinal the principles of transparency and disclosure are to corporate governance, these reforms imposed quite stringent reporting obligations on listed companies. Beyond the improvement of quality and timely financial reporting, requirements have even gone the length and breadth of disclosing nonfinancial essential information such as ESG no longer a choice but a fact. These reforms have sought to inspire investor confidence and attract foreign investment, and eventually promote sustainable economic growth that is sustainable through providing comprehensive and reliable information to stakeholders [12, 16].

The 2017 reforms also sought to grant more empowerment with regard to the enforcement of regulations concerning corporate governance. This was by setting up an independent regulatory authority competent in the enforcement of compliance and penalties arising out of such non-compliance. These measures were, therefore, to make sure the newly introduced set of standards is adhered to strictly, with a view to instilling a culture of responsibility, accountability, and ethical conduct within the corporate sector [12, 13].

4.1 Enhanced Board Composition

A requirement that at least one-third of the composition of the board comprises independent directors, and introduction of guidelines for diversity, including gender representation [14]. More far-reaching reforms in enhancing the level of good governance practices in the following manner: At least 33.33% membership will be independent directors to provide balanced decision-making and reduce risk due to possible conflict of interest [12]. Further, considering diversity to be an important factor, full guidelines on inclusion should also be highly integrated, especially regarding gender. One must not underestimate the power of diverse perspectives and experiences in driving innovation, guaranteeing fairness, and ensuring an inclusive boardroom. These initiatives would allow an organization to remain ethical while unleashing the true potential of a board for sustainable growth and success in the long run [14].

4.2 Improved Transparency

Quarterly financial reporting is, therefore, a must to be taken up by organizations in their journey to present their results transparently and accurately [3]. Such reports present insights that may be useful for the company's stakeholders in making economically useful decisions [4]. Full disclosure of related-party transactions is important in promoting greater accountability and inhibiting fraud. Clear and concise guidelines enable the companies to make proper disclosure for any transaction that may involve related parties, including but not limited to directors and executives or entities related to such directors and executives [4]. It ultimately helps in instilling confidence among investors, regulators, and stakeholders. In recent times, Environmental, Social, and Governance reporting has been one of the key factors in the corporate world.

ESG reporting allows a business organization to gauge and report on its impact on the environment, society, and corporate governance. Companies can take responsibility for pressing global issues with integrated sustainability considerations within their reporting practice and help contribute to a more sustainable future [7]. Such initiatives, if expanded, will make sure the financial reporting needs are fulfilled but also embed a culture of openness, integrity, and a sense of responsibility while doing business. It assists

an organization in making a constructive contribution toward various stakeholders like investors, employees, customers, and society as a whole. With the transformation in the corporate world, companies must understand these reporting duties and be representative of the feasibility of sustainability for their endurance and growth [7, 12].

4.3 Strengthened Shareholder Rights

It is highly required to have more transparent procedures for placing proposals and resolutions, especially those that will give more power to minority shareholders. This will further ensure that corporate governance is promoted along with inclusivity in active decision-making [12, 23]. The process, therefore, cannot be overemphasized because it contributes toward a better and fair corporate world that is responsive to the interests of all shareholders.

4.4 Enforcement Mechanisms

Empower regulatory bodies, such as the Jordan Securities Commission, with heavy penalties and sanctions for non-compliance to further strengthen their powers in ensuring compliance with regulatory frameworks that protect investors. The increased powers will, on one hand, enable these bodies to deal with and prevent cases of non-compliance in a more effective way and, on the other hand, nurture a culture of compliance that strengthens the stability and credibility of the financial markets [12, 25].

Such enhanced penalties include heavy fines, suspension or revocation of licenses, and even legal actions that could strongly deter market participants from being non-compliant. It is an empowered approach that not only protects investors' interests but also strengthens the integrity and reputation of the entire financial sector on principles of transparency, fair market practices, and long-term sustainable growth [3, 16].

4.5 Focus on Voluntary Disclosure

The revised Code significantly encourages all companies, regardless of their size and background, to take concrete steps towards the holistic implementation of Corporate Social Responsibility into the core of their business practices [7, 12]. This involves an alignment with the overall societal goals of long-term objectives in regular business practices. It is by paying due regard to this aspect of CSR that companies can go a long way in making a difference to the environment, society, and its stakeholders [15, 26]. This code enables the company to contribute meaningfully and play their role as active corporate citizens.

5. Research Method

This study utilizes a comparative and descriptive research design to investigate corporate governance in Jordan, both prior to and following the introduction of the 2017 corporate governance framework. Secondary data (which includes annual reports, regulatory documents, and financial statements of listed companies) is gathered for two distinct periods: The data was divided into pre-reform (2013–2016) and post-reform (2018–2021) with the year 2017 considered as transitional. The sample only includes those firms that are present in both periods and for which data is available and who report in accordance with the standards. Board of directors, ownership, transparency, and regulatory compliance are examined by using descriptive analysis. This method includes content analysis to identify the existence of substantial variation. The corporate governance code of 2017 serves as a standard with which to compare the results; thus, it reveals strong and weak points.

This method though provides a comprehensive evaluation of the impacts of these reforms on the corporate governance practices in Jordan but also takes into account of some factors that may affect these practices. For example, it is crucial to understand that the effect can be different (due to the context). This understanding is important because it shows that governance reforms are not a simple process in a particular area. However, the structured approach guarantees that all the factors are considered in the process.

6. Comparative Analysis of Governance Practices

6.1 Compliance Trends

The reforms led to notable improvements in compliance rates and governance quality, as illustrated in Table 1.

Table 1: Key Governance Metrics (Pre-2017 vs. Post-2017)

Metric	Before 2017	After 2017	Change (%)
Independent Directors (%)	20	35	+75%
Timeliness of Disclosures	60	90	+50%
Minority Shareholder Voting (%)	50	68	+36%
ESG Reporting (%)	Minimal	45	Significant Adoption

Table 1 highlights significant improvements in key governance metrics in Jordan following the 2017 corporate governance reforms. The percentage of independent directors increased from 20% to 35%, reflecting a 75% improvement, indicating a stronger focus on enhancing board independence. Timeliness of disclosures rose from 60% to 90%, a 50% increase, showcasing greater compliance with reporting requirements. Minority shareholder voting participation improved by 36%, rising from 50% to 68%, suggesting enhanced shareholder rights and inclusivity. Additionally, ESG (Environmental, Social, and Governance) reporting shifted from minimal levels pre-2017 to 45% adoption post-2017, marking significant progress in corporate sustainability practices. These changes collectively demonstrate the positive impact of the reforms on corporate governance standards.

5.2 Financial Performance and Market Outcomes

Table 2: Financial Metrics (Pre-2017 vs. Post-2017)

Indicator	Before 2017	After 2017	Change (%)
Average Return on Equity (ROE) (%)	8.5	10.2	+20%
Market Capitalization (JD)	18 billion	24 billion	+33%
Foreign Direct Investment (FDI) Inflows (JD)	900 million	1.3 billion	+44%

Table 2 illustrates the financial performance of companies in Jordan before and after the 2017 corporate governance reforms, highlighting notable improvements. The average Return on Equity (ROE) increased from 8.5% to 10.2%, reflecting a 20% growth, indicating enhanced profitability and efficient use of shareholder capital. Market capitalization grew from JD 18 billion to JD 24 billion, a 33% rise, showcasing increased investor confidence and valuation in the market. Foreign Direct Investment (FDI) inflows rose significantly by 44%, from JD 900 million to JD 1.3 billion, suggesting greater international interest and improved economic stability post-reforms. These financial metrics demonstrate the positive economic impact of the governance changes. The improvements in financial metrics suggest that stronger governance frameworks positively impact market performance and investor confidence.

7. Challenges and Limitations

7.1 Implementation Challenges

The high compliance costs for smaller companies: There is also cultural resistance to governance reforms, especially in the case of family-owned businesses, which has constantly hampered growth and innovation in the corporate sector. In many instances, this resistance comes from long-established cultural traditions or value systems that are so deeply engraved in society that they create serious barriers to the embracing of good governance practices and, consequently, the long-term survivability and competitiveness of a company. In this regard, it is relevant to underline that the solution proposed must be holistic and tailor-made, dealing

not only with economic and regulatory issues but also with the cultural nuances deeply ingrained in the way small businesses operate.

Knowledge of the nature and rationale of the resistance to change process will enable the policy makers, key industry players and other stakeholders involved in formulation of change strategies to socially construct cogent innovative strategies that reconciles change with conservation of tradition and cultural fabrics whilst addressing issues of reforms in the governance frameworks. Efforts to reduce compliance costs must therefore be comprehensive, and consider the peculiar circumstances of SMEs while at the same time maintaining competitiveness. It could also refer to immaterializing or rationalizing of processes about certain regulatory authorities, relieving certain obligations about reporting or even offering incentives where incentives are given.

Meanwhile, the only way to surmount cultural resistance is gaining an understanding of habits, values, and norms in family-owned businesses through generations. Hence, an enabling environment via open dialogue, awareness creation, and education of the owners on the benefits accruable from good governance will see incremental but sustainable reforms being recorded. An approach that would not only recognize corporate heritage and culture but simultaneously promote positive change in the right direction toward more openness, accountability, and greater resilience within the organization. Taking down the barriers created through cultural resistance to governance reforms will provide small firms with an enormous transformation opportunity to thrive and capitalize on emerging opportunities.

These companies would bring in increased operational efficiencies, devise better ways of managing risks, and improve long-term growth possibilities through progressive methodologies. They would make the economy more dynamic and inclusive in nature. So, all the stakeholders are to be made aware of this move's importance and should work together in overcoming cultural resistance so that a better future is ensured not only for family-owned businesses but also for the entire business world.

7.2 Enforcement Gaps

Despite continuous efforts to enhance the effectiveness of the reforms, it is crucial to acknowledge that the inconsistent enforcement across various sectors has significantly undermined their overall impact. In order to truly maximize the potential and benefits of these reforms, it becomes imperative to address and rectify the inconsistencies in enforcement, ensuring that all sectors adhere to the established standards. By doing so, we can create a more cohesive and harmonized environment that fosters the desired positive changes and advancements brought about by these reforms. It is only through consistent and equitable enforcement that we can truly realize the full potential and transformative power of these reforms, ultimately leading to a more prosperous and equitable society.

7.3 Limited Stakeholder Awareness

Many stakeholders, including minority shareholders, who play a crucial role in the business, remained completely unaware of their fundamental rights and entitlements under the comprehensive and recently updated code, which aims to safeguard their interests and provide fair and equitable treatment within the company's operations and decision-making processes.

8. Conclusion

The recent changes made to the Jordan’s Corporate Governance Code in 2017 have greatly enhanced the levels of governance, transparency and investor confidence. However, as soon as the practice of such reforms began, a positive shift in the corporate environment of Jordan occurred, during which companies gradually began to accept higher standards concerning the indicators of governance. Therefore, it has introduced not only more transparency but also enhanced investors’ confidence towards taking actions in the probable directions for development. However, such positive changes notwithstanding, the challenges remain. One of the issues of many businesses is the price they have to pay in terms of compliance to navigate a hostile and complicated regulatory environment. In addition to this, compliance gaps are one of the biggest barriers to

the practical application of the code of governance. Lack of enforcement has to be addressed appropriately by the authorities to ensure that accounting of actions by firms is done where necessary. However, cultural resistance is also mentioned as one of the challenges to the adoption of the Corporate Governance Code.

Decision-making processes within organizations in Jordan often bear a representative character of cultural influence. Cultural resistance has to be met with educational and awareness-raising schemes that extol the benefits of good governance practices. Promoting accountability and transparency within the broader culture will go a long way toward consolidating the framework of corporate governance in Jordan. With these challenges in mind, Jordan should continue its efforts and strengthen its corporate governance system. By doing so, Jordan is going to set an example for the regional emerging markets to follow by showing its commitment to good governance practices. The enhancement will not only help the business environment but also attract foreign investments that might bring along economic development. In this respect, reforms brought under Jordan's Corporate Governance Code 2017 have been very instrumental in improving practices on corporate governance, increasing transparency, and building confidence in investors. Challenges persist, though, and the case for a proactive approach by Jordan in getting them addressed. Through such means, Jordan will be able to move further toward an improved corporate governance framework that can be aspired to by other emerging markets in the region.

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