

How do board and organization features influence the organization profitability: Evidence from Asia

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Submission date: 07-Oct-2020 01:48AM (UTC+0500)

Submission ID: 1407363621

File name: and_organization_features_influence_the_organization.....docx (57.33K)

Word count: 2449

Character count: 13057

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Abstract: A huge number in the prior work has tested the link between control mechanisms and organization profitability. Several methods used by such works to enhance the notion that there is inconsistent result in the link between board feature and organization profitability. However, there is unpredictable of this of this link shown by the prior works. Thus, the current work aim at testing board features as internal control mechanisms which represented by the size of both organization and board of directors in their impact on organization profitability in the non-financial companies selected in Asia and represented by one of the countries belongs to Asia, which is Jordan. Data were collected from the annual reports for 65 organizations for the year of 2019 from the website of ASE via utilizing a cross-sectional analysis study. After testing the hypothesis of the current work, the findings revealed that the size of the board of director has a significant impact of the organization profitability of nonfinancial companies in Jordan. However, this work work showed that organization size has insignificant impact on organization profitability. The current work might help policy makers in Asia in general, and Jordanian non-financial sector in particular, deliberate policies related using robust control mechanisms to enhance directors' commitment toward utilizing internal control mechanisms for the ultimate aim in promoting organization profitability.

Keywords: Internal control mechanisms, Organization profitability, Non-financial sector, Asia

INTRODUCTION

Internal control mechanisms have perceived a fast improvement and become as an important tools in all sectors because of its importance to enhance the economy for any country (Ahmed et al., 2020; Abashammala et al., 2015; Ahmed et al., 2019; Ahmed et al., 2014a; Ahmed et al., 2014b; Ahmed et al., 2019; Ahmed et al., 2018a, b, c, d; Alfadehl and Alabdallah, 2013; Alabdallah et al., 2014a, Ahmed et al. (2012); Ahmed, and Zuqibah, 2013; Ahmed et al., 2013; Ahmed, et al., 2014c). Especially, the whole world today have faced incredible global crises in all life direction: health, economic, financial, and social crises COVID-19 pandemic (Alabdullah et al., 2020).

Internal control mechanisms have important role in improving organization profitability and also in protecting the right of the stockholders. Hence, enormous care has been given to such mechanisms by several studies in the literature review control determinants and mechanisms to ensure protection for the investors and other interested parties such as (e.g. Alabdallah, 2020; Abdol Raham et al., 2019; Alabdallah, 2019; Thottolia et al., 2019; Alabdallah, 2018; Hashem, et al., 2019a; Alabdallah, 2017; Alabdallah, 2016a; Alabdallah, 2016b; Alabdallah, 2016c; Alabdallah, 2016d; Alabdallah, 2016e; Alabdallah et al., 2018a; Alabdallah et al., 2018b ; Alabdallah et al., 2018c; Hashim et al., 2019b).

In spite of a huge number of studies related to internal control mechanisms with its link to organization profitability, studies on Jordanian nonfinancial organization regarding board of director size as one of the significant tools of the internal control mechanisms in terms of the association with organization profitability are lagging behind the non-financial companies of this sector. Furthermore, organization size is one of the important tool as an independent variable as stated in a some literature that have been done in Asia and therefore this reflects a notable lack in not using this tool in Asia including Jordan as one of the Asian countries in particular (Alabdallah et al, 2018). Noting that the tools of the internal mechanisms are ancient history and existence that they are exist from hundreds of years ago (Alabdullah et al., 2014a,b,c). In addition, This study is paying attention as response to call for further researches that aimed to testing the link between internal control mechanisms and organization profitability from one hand, and to deal with the problem of profitability declining in the companies belong to nonfinancial sector in Jordan from the other (Alabdullah, 2020).

The objective of the current work is to test the link between organization size and board of director size, and organization profitability via considering both (ROA) and (ROE) , with measurements for the organization profitability. The present work aims to investigate if there is any link between the internal control mechanisms used by the current work and organization profitability in Jordanian context. Therefore, the present work might add knowledge to the existing literature in Asia and in Jordan as well.

LITERATURE REVIEW AND HYPOTHESES

A stream of literature investigated empirically the internal control mechanisms. They focused of testing the explanatory variables that could explain the difference in the performance. A large number of the previous studies tested the link between liquidity (Aliy et al., 2010; Mendas-da-Selva and Christenen, 2004), organization age (Nurnnabi and Hossein, 2012; Pozneak and Feraugi, 2015), type of auditing (Alaly and Romerio, 2012; Bobaker et al., 2012; Nurnnabi and Hossein, 2012) on performance. Yet, few studies tested the effect of organization size with board of director size on organization profitability (Al-Htaybat, 2011). Therefore, the current study comes to fill the gap and the lack in the literature review in testing its internal mechanisms that represented by both the organization size and board size and their impact on the organization profitability. Another stream for example in after the crises hit Asia and the drawbacks that also happened in several organizations in developed countries like Enron in USA, there really was a distinguished suspicion on several organizations in whole the world as a result in different fields which made several studies in the literature review gave further attention such as (Abushammala et al. (2015) ; Ahmed et al. (2020) ; Ahmed et al. (2019) ; Ahmed et al. (2014a) ; (Ahmed et al. (2014b) ; Ahmad et al (2019) ; Ahmed et al. (2018a,b,c,d) ; Alfadhil and Alabdullah (2013) ; Alabdullah et al. (2014a),Ahmed et al. (2012); Ahmad, and Zuqibeh, (2013); Ahmad et al. (2013); Ahmad, et al. (2014c).

One of the important tool of the control mechanisms is the board size that is considered as one of the essential components in the internal control mechanisms in controlling and enhancing organization profitability and alleviate problems occur from the conflict between the management and the owners of the organizations as mentioned by agency theory (Alabdullah, 2020; Omer, 2019; Alabdullah et al., 2016; Ali and Zarowin, 1992; Pfeffer, 1972; Ali et al., 2017; Yermack, 1996; Fauzy and Locke, 2012; Baliga et al.,1996).

waves in the previous works reveal when the board size is large, this leads to more awareness and also expertise; therefore that might strongly lead to better organization profitability (Alabdullah, 2016; Buniamin, Alrazi, Johari, & Rahman, 2008). Similarly, a study done by Alabdullah, Yahya, and Ramayah (2014) illustrate that one of the significant internal control mechanisms is large board of director size, and such

mechanism leads to better organization profitability. On top of that, the current work used organization size as a another independent variable to be tested in its link with organization profitability. It is notable that in Asian countries, organization size has a significant role on enhancing profitability (e.g., Bonaccorsi, 1992; Hall, 1986; Moen, 1999). For instance, Bonaccorsi (1992) an Italian study done in industrial organizations and showed that a large companies have better performance than small companies and further are more competitive than small ones. Yet, still there are not enough studies to test this variable in Asian as well as in Jordan in particular. In that, there has not real attention to be given to the organization size by prior studies in Asia. Given that, a small number of studies such as Alabdullah et al. (2014) and Alabdullah (2016) in Asia has tested organization size as a control variable and further no prior works in Asian context tested it as an independent variable (IV) in its link with organization profitability. Thus, we expect that the increasing of board size would increase organization profitability. Moreover, organization size has a significant and positive impact on organization profitability.

³ H1. There is a significant and positive link between board size and organization profitability.

H2. There is a significant and positive link between organization size and organization profitability.

METHODS

Collection of Data and Measurement of Variables

This work chooses a sample that contains of non-financial listed Jordanian organizations via choosing real data for the year 2019. Accounting and control mechanisms data have been collected via Amman Stock Exchange (ASE) website for non-financial organizations that served the present work to accomplish its aim.

The current work measured the dependent variables organization profitability through ROA and ROE. The independent variables recognized as the board of directors' size and organization size. Table 1 introduces a detail for measuring the variables.

Table 1 Variables Measurement

Number	Variables	Acronym	Measurements
DVs			
1	Return on Assets	(ROA)	it is the ratio of net income to total assets.
2	Return on Equity	(ROE)	it is a ratio of net income to common equity.
IVs			
4	Board Size	BD	The number of managers in the board directors.
6	organization Size	Osize	Natural logarithmic of the organization's total assets.

The models of the present work comprised specific variables represented by board of director size and organization size that have probable influence on organization profitability ; which means, they affect their ROE and ROA. To test the link between board of directors size and organization size, and organization performance in one of the Asian countries, that is Jordan, a cross sectional study was done via real data for the year 2019. The models of the present study are shown below:

$$1. \quad ROA = \alpha + \beta_1 BD + B_2 Osize + \varepsilon$$

$$2. \quad ROE = \alpha + \beta_1 BD + B_2 Osize + \varepsilon$$

RESULTS

Descriptive

The analyzing descriptive of the DVs and IVs of the present work is provided for the organizations belong to the nonfinancial by utilizing descriptive test. The variables distribution is illustrated in Table 2.

In Table 2, the findings also revealed the kurtosis and skewness values for the research sample is reflecting good indicator because the sample is normally distributed

because it is within the accepted range for both skewness and also for the kurtosis. Also the data normality might be accomplished in the case when the standard kurtosis is between the value of ± 3 and standard skewness between ± 1.96 .

Table 2 Descriptive Test

Variables	Mean.	SD.	Min.	Max.	Skewness.	Kurtosis.
ROA	3.0960	1.3900	-1.1000	6.9800	0.0970	0.9140
ROE	4.8050	4.1840	0.0000	12.1000	0.3480	-1.2770
BD	10.9700	2.1140	7	15	0.2870	-0.8820
Osize	7.1190	0.9360	4.0800	8.9600	-0.8350	1.0210

RESULTS AND DISCUSSIONS

Correlation Test

Table 3 reveals the correlation test between DVs and IVs. It shows that the IV board of director size (BD) is positively linked to (ROA) in value of (BD 0.4520). The Table shows that board size (BD) is positively linked to ROE in value of 0.1710. The Table shows that the BD has a positively and highly link with ROA in a value of 0.4520.

Table 3 Correlation test

	BD	Osize	ROA	ROE
BD	1			
Osize	-0.2950*	1		
ROA	0.4520**	-0.2240	1	
ROE	0.1710*	-0.2360	0.3160*	1

*p <.05 and **p <.01

Multiple Regression Test

This work used the regression test to test the direction of the link between the DVs and IVS.

Regression For Model 1

Relying on organization profitability measured by (ROA), Model 1 is defined as shown below:

$$ROA = \alpha + \beta_1 BD + B_2 Osize + \varepsilon$$

Table 4 shows the findings of regression that show the value of R square which is 0.2410 for the (ROA) and it refers that such a value for the R square is explained 24 percent of the IVs (BD & Osize) on DV represented by ROA.

Table 4 Regression for ROA

Model	ROA
R Sq.	0.2410
Sig F Ch.	0.0010

In Table 5, the test was run by us for all the IVs and DVs of ROA. The findings show that board of directors size (BD) has a positive link with ROA (BD $\beta=0.4230$). However, the organization size (Osize) has an insignificant link with the ROA (Osize; $\beta = -0.1000$). In Table 5. We explained test of the hypotheses for Model 1.

Table 5 Regression Test for ROA

Variables	ROA		
	St. Coef.	T_value	Sig
BD	0.4230	3.5890	0.0010
Osize	-0.1000	0.8440	0.4020

p < .05, *p < .01

In the current work we hypothesized that a significant and positive link is between the board size and ROA. In the present work revealed a significant and positive link that exists at $\beta= 0.4230$, T value= 3.5890, $P < 0.1$. It reveals the profitability which characterized by ROA is affected via large board of directors size in nonfinancial organizations at ASE. Such a result is consistent with what suggested in the current work. This result is consistent with Alabdullah (2018) study that also done in Jordan. Thus, H1 (There is a significant positive link between board size and organization profitability) is supported. Unlike wise, there is no effect in the link between the organization size (Osize) and the ROA ($\beta = -0.1000$, T value= 0.8440, $P > 0.1$). It shows that organization profitability is not effected by the organization size of the nonfinancial listed organizations in Jordan. Such finding is irreconcilable with what the current work suggests. Instead, the study hypothesized that a positive and significant link exists

between organization size and ROA as stated by previous study (e.g. Bonaccorsi, 1992; Moen, 1999). However, this finding is consistent with a work done by (Samie & Waliters, 1990). Their work indicated there is no link between organization size and profitability. Therefore, hypothesis H2 (There is a significant positive link between organization size and organization profitability) is not supported.

Regression Test of Model 2

Relied on organization profitability measured by (ROE) for the current work, Model 2 could be explained as below:

$$ROE = \alpha + \beta_1 BD + B_2 Osize + \varepsilon$$

However, the current work is not going to give any details about model 2 due to the findings of ANOVA test. This model is insignificant with value of 0.1170.

CONCLUSION

In recent times, the world has faced many like what happened in Arthur Andersen and Marconi and Enron. These drawbacks have effected to a negatively both developing and developed economies, which has led to unlimited attention to shareholders to focus on organizations which have high level of internal control mechanisms.

Several works in the literature have tested the link between internal control mechanisms and organization profitability . Nevertheless, there have not been enough studies that investigated link via selecting both ROA and ROE as a indicators of organization profitability and organization size with board of directors size as a DV in dealing with nonfinancial sector in Jordan.

The findings proposed a positive link between larger board size and organization profitability with its indicator is ROA. Yet, there is no link between the board size and organization size, and organization profitability with its indicator which is ROE. The current work recommended and suggested the future works to test the board size and organization size with nonfinancial organizations listed in another Asian countries.

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