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The Relationship Between Muslim Directors on Board of Directors and Audit Committee Characteristics on Performance Evidence from Jordan

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Abstract

This study examines the impact of corporate governance mechanisms on the performance of firms in Jordan. Giving particular attention to diversity in the board of directors and audit committee, this study looks into the impact of Muslim directors on the board of directors (BoD) and audit committee (AC) on performance. Overall, 76-panel data were used, which were obtained from published annual reports of industrial and service sectors from the Amman Stock Exchange from 2012 to 2018. A fixed-effect model was used to test various hypotheses of the study. Both accounting-based (ROA and ROE) and market-based (Tobin's Q) performance measures were tested. which, as yet, only a handful of studies have been conducted. The findings showed that the relationships between Muslim directors on the board have an insignificant effect on ROA and ROE. Conversely, Muslim director in AC has a positive but insignificant relationship with ROA and ROE. Concerning the relationship with Tobin's Q, the findings showed that Muslim directors on the board have an insignificant relationship with Tobin's Q. Moreover, the findings showed that Muslim directors in AC have an insignificant positive relationship with Tobin's Q. This study provides useful information that is of great value to policymakers, academics, and other stakeholders. This study fills the gap and contributes significantly to the literature by proving extensive findings with regards to the impact of corporate governance on firms' performance especially the presence of Muslim directors in BoD and AC in Jordan.

Keywords: Muslim Directors, Board of Directors, Audit Committee, Corporate Governance; Performance; Jordan.

1. Introduction

Good CG mechanisms lead to improve the performance of companies (shatnawi et al, 2019a). Islamic economics as a discipline applies the injunctions of the Sharia or Islamic laws in dealing with the allocation of scarce resources for individual and collective achievements of spiritual, moral, and material well-being (Hassan and Marimuthu, 2018a, 2018b). In line with an Islamic world view based on divine revelations and human reasons, Islamic economics places collective/society welfare above personal gains. The Islamic administrative theory views that no separation between ethics, morality, and administration. In this context, Islamic Sharia necessitates Muslims to adopt Islamic guidelines in all aspects of their life and dealings (Jaballah, et al., 2018; Nomran, et al., 2018). Muslims managers believe that they are held responsible to their stakeholders in addition to their accountability to Allah in the hereafter. The obligation originates from this answerability, requiring the accounts to maintain the property and the resources under their responsibility and use them resourcefully, honestly, and with integrity to serve the investors interests (Hammadah, 2018). Sharia also instructs that consultants should have certain skills and characteristics. Moreover, they must be honest, capable, qualified, and expertise in addition to undertaking their duties (Falgi, 2009). With regard to specific business capabilities of the Sharia Supervisory Board, Bin Hasan (2011) stated that only 51.4 % of Islamic Financial Institutions provided professional training to their Sharia Supervisory Board, especially in matters of finance. Recently, Naz et al., (2017) discover the influence of managers' financial

styles on the financial decisions of the sharia companies. The Sharia necessitates the agents to guarantee that all their activities and performances are in accordance with the interests of the different parties in their business. There are several factors that can be influence CG practices (Shatnawi et al, 2020; Alaaraj et al., 2018; Alaarj et al. 2017a, b).

The present investigation classifies the board composition into Muslim directors and non-Muslim directors while hypothesizing that a higher number of Muslim directors on the board of directors would result in a higher quality of accounting information. According to Robinson (2007), world financial markets have experienced astonishing growth in Islamic finance. Islamic finance is considered the major characteristics of any decision made by corporations. Moreover, Rammal (2010) showed that there was a worldwide shortage of competent Sharia advisors. Falatifah and Hermawan (2019) since the board of directors composed of human beings, their beliefs would definitely affect their behaviors. Therefore, the analysis of CG from a physical characteristic is inconclusive if the human belief system, as molded by religion, is not taken into consideration. The percentage of Muslim members to the total of members on the board of directors is used to measure its variable (Ibrahim and Alam, 2018). The literature, however, pays less attention to the direct role played by the managers in terms of cross-sectional variation in firm performance and eccentric risk in the context of sharia-compliant firms (Jaballah, et al., 2018; Klein et al., 2018).

Another interesting finding is that the Muslim CEOs can add positively to the firm performance if the possessors hold more regulatory rights (Wooi and Ali, 2015) Nevertheless, Guiso et al. (2003) argue that the concept of brotherhood, one of the ethical principles in Islam encourages social responsibility and avoids competition among his brothers in the market. Hence Muslim directors might exhibit a more conservative behavior in running a business, thus lowering firm performance. The ethical characteristics expected of a Muslim director should encourage good corporate governance mechanism thus much lesser monitoring is needed (Hassan and Marimuthu, 2018a).

It is established that the presences of Muslim directors on the board of directors have a significant impact on the performance of the firms and can bring the firm to its utmost performance. This study fills the gap and contributes significantly to the literature providing extensive evidence with regards to the impact of corporate governance on firms' performance especially the presence of Muslim directors in the board of directors, and audit committee, particularly in Jordan.

In response to this problem, research upon the combined association of Muslim directors on the board of directors and audit committee on performance. in the Jordanian industry and service sector. It would be helpful in finding out the central point of the corporate governance system in Jordan for recent years. The purpose of this research is to assess the relationship of Muslim directors on the board of directors and audit committee with performance, also assessing the Control variables represented by firm size, firm age, and leverage. Accordingly, this research aims to find the relationship between Muslim directors on the board of directors and performance of companies. It also aims to find the relationship between Muslim directors on audit committee and performance of companies. The remaining of this paper discusses the theoretical background and hypotheses development as well as the methodology, findings, discussion and conclusion.

2. Theoretical Background and Hypotheses Development

Despite various studies on CG mechanisms on corporate performance, the empirical results appeared inconclusive and the findings are inconsistent (shatnawi et al, 2019a). Most of the Islamic organizations use western CG standards, which may not be in accordance with Islamic values. However, in the area of the governance tools and mechanisms, both are relatively the same, and differences are minor (Kasri 2009). However, the Islamic economic system requires the firms to have some moral and ethical obligations while carrying out economic activities where the profit moderation is elucidated under the umbrella of the Sharia framework (Grassa, 2016; Khatkhatay and Nisar, 2007). Numerous prior studies addressed the relationship between the Muslim Directors and performance as will be shown in this part.

2.1 Number of Muslim Directors on the Board

The Muslim directors can function effectively on boards of firms when working with the majority group of other religious groups. It is believed that Muslim directors in the majority of countries such as Jordan, Yemen, Iraq, Saudi, etc. can make a significant impact to the firm performance due to their religious belief which regulated the economics, moral, and dealings (Ibrahim and Alam, 2018). As most recently reported that the more diversified a board is, in term of religion or gender, the greater the chance for performance (Hassan and Marimuthu, 2018). Muslim directors (both men and women) involvement at the board top level can improve the risk-taking behavior of managers and enhance the internal tasks of their firms as well as performance (Mollah et al., 2017). On another hand the failure of financial performance witnessed around the world particularly the Islamic Financial Institutions of Islamic countries in addition to weak CG structures (Eldaia et al., 2020).

In this context, Islamic Sharia necessitates Muslims to adopt Islamic guidelines in all aspects of their life and dealings (Nomran, et al., 2018). The ethical characteristics expected of a Muslim director should encourage good CG mechanism thus much lesser monitoring is needed (Alhabshi, 1994). The literature, however, pays less attention to the direct role played by the managers in term of cross-sectional variation in firm performance and eccentric risk in the context of sharia-compliant firms (Jaballah, et al., 2018; Klein, Weill, and Godlewski, 2018). Islamic organizations, whether business, governmental, or none profitable firms, operate within the Sharia restrictions (Abdul Rahman et al., 2018; Mollah et al., 2017). There are very few empirical literatures on a number of Muslim directors on the board in term of sharia-compliant firms and performance. So, in order to measure performance in a firm, the relationship between the Muslim member on board and CG must be determined. Based on the above discussion, the present study expects a direct association between Muslim directors in the board and performance in the Jordanian industry and service listed companies. The testable hypothesis is stated as:

H1: There is a positive impact of Muslim directors in the Board on performance of companies.

2.2 Number of Muslim Directors in the Audit Committee

The Muslim directors can function effectively in AC when working with the majority group of other religious groups. It is reported that the more diversified a board is, in term of religion or gender, the greater the chance for performance (Hassan and Marimuthu, 2018, Eldaia et al., 2020a). Muslim directors (both men and women) involvement at the board top level can improve the risk-taking behavior of managers and enhance the internal tasks of their firms as well as performance (Mollah et al., 2017). With regards to risk-taking behavior, it is suggested that the ERM has potential to moderate between the numbers of Muslim directors on the board and corporate performance, though this moderation has never been reported in the literature. However, studies on the effect of AC independence on performance still remain incomplete (shatnawi et al, 2019a). Ali et al. (2018) explored knowledge, skills, and characteristics requirements for Sharia Muslim auditors. The results showed that Sharia knowledge is the important knowledge constituent, then the knowledge of Islamic banking process and knowledge of Fiqh Muamalat. Involvement of Muslim directors in the AC in the financial management and reporting may be attributed to the ability of the Muslim auditors to resist management pressure that commonly comes with fraudulence managers in trying to cover-up their misdeed. Effectiveness audit committee considerably reduce the fraudulence reporting, crises, misstatement, and financial disclosure (shatnawi et al, 2019b).

Based on different literature outlook, the Islamic religion, which emphasizes on the social equilibrium and justice, has banned any opportunistic business practices that aim solely for the lucrative motive at the expense of other stakeholders or the society. The stakeholder theory describes an individual or group of people that can affect or is affected by the achievement of the organization's objectives (Harrison, et al., 2015; Freeman, 1984). This demonstrates that different corporate groups such as shareholders, employees, creditors, suppliers, customers, government, and local communities, have an effect on organizational activities. The stakeholder theory describes that the BoD and other management teams must conduct their business activities and practices morally and ethically because such activities can affect the stakeholders' perceptions towards the organization (Ghazali, 2014). Upon the above argument, the present study expects a direct association between Muslim directors in AC and firm performance in the Jordanian industry and service listed companies. The testable hypothesis is stated as:

H2: There is a positive impact of Muslim directors in Audit Committee on performance of companies.

3. Methodology

3.1 Sample of Study

According to Sekaran and Bougie (2013) denote population as the entire group, events, or things of interest that the researcher desires to investigate, and the sample is a subset of the population. The current study uses data from 2012 to 2018. Thus, the historical data available for the 76 selected firms cover a period of 7 years from 2012 to 2018. The three sectors under Amman stock exchange (ASE); financial, industrial, and service sectors. However, this study uses only two sectors industry and sector service. This led to 532 firm-year observations for the whole sample (76 firms multiplied by 7 years). Thus, companies in the financial sector were excluded because they have different financial reports for the banking sector in ASE are the most conservative (Hamdan, 2012).

Thus, the industry and service sectors are more suitable for testing the relationship between AC Effectiveness on corporate performance. This study did not encounter any biases in the data for this period (2012 to 2018). In this study, the performance represents the dependent variable, which measurement by Both accounting-based (ROA and ROE) and market-based (Tobin's Q) performance measures. In terms of independent variables, the study adopts Muslim directors on the board of directors and audit committee, in addition to the firm size, firm age, and leverage as control variables. Table 1 presents the operational definitions adopted in the study.

Table 1. Variables definition

Variables	Acronym	Definitions
Dependent variable: Corporate Performance		
Return on Assets	ROA	Net income divided by book value of total assets
Return on Equity	ROE	Net income divided by Book value of total equity
Tobin's Q	TQ	The market value of equity plus book value of liabilities divided by book value of assets
Independent variables: AC effectiveness		
Muslim directors on the Board of directors.	BODMUSLIM	The proportion of Muslim directors on the board to total number board of directors' members.
Muslim directors on the Audit committee.	ACMUSLIM	The proportion of Muslim directors in AC to the total number of directors in Audit committee.
Control variables		
Firm Size	FSIZE	Natural logarithm of total assets
Firm Age	FAGE	The number of years since the company was established
leverage	FLEV	The ratio of total liabilities to total assets.

3.2 Research Mode

The study uses the panel data approach as it eliminates unobservable heterogeneity that different companies in the sample data could present, has less collinearity between the variables and a better measurement than pure cross-section or pure time-series data (Gujarati, 2009). Accordingly, (Hsiao, 2014) documented that panel data provides a study with a large quantity of data, which maximize the scale of freedom and minimizes the collinearity through independent variables.

Based on the results of prior research, as well as the Muslim directors in Jordan and data availability, we have adopted a definition for this study. We define as:

- a) Muslim directors on the Board.
- b) Muslim directors in the audit committee.

These characteristics are independent variables in our model. The dependent variable is Performance, as well as, the firm size, firm age, and leverage as a control variables. The models can be written as follows:

$$CP = B_0 + B_1 MDB_{it} + B_2 MDAC_{it} + B_3 FSIZE + B_4 FAGE + B_5 L + uit$$

Where CP refers to the corporate performance, which is represent the dependent variable and measured by ROA, ROE and Tobin's Q. Muslim directors on the Board (MDB) and Muslim directors in the AC (MDAC), which is represent the Independent variable. Control variables represented by firm size (FSIZE), Firm Age (FAGE) and Leverage (L).

4. Findings

4.1 Descriptive Analysis

The performance of this study is measured using Return on Asset, Return on Equity, and Tobin's Q. The descriptive information of the performance is presented in Table 2. The table displays the mean, median, standard deviation (std), minimum, and maximum values of the variables. In term of Return on Assets (ROA), the table displays the 532 observations coming from 76 companies; the mean score is 2.12221. The standard deviation is 6.34 and it is higher than the accepted value of absolute 1.96. This is mainly due to the use of ratio scale, which allows the variation in responses and result in high standard deviation. The minimum value of ROA is -33.80% while the maximum value is 41.14% indicating that there is a high variation in the ROA of industrial and services companies in Jordan in the period of 2012 to 2018 is 2.12.

Similarly, the return on equity (ROE) has an overall mean of 3.26%. The standard deviation is high at 12.66 due to the use of ratio scales. The values of ROE ranged between -51.70 (minimum) and 50.85% (maximum) indicating that there is a high variation in the performance of Jordanian companies in term of the ROE. For the Tobin's Q, the Table 2 displays that the mean value is .8899 while the Standard deviation of 1.32 is within the acceptable values. The highest value of Tobin's Q is 13.32 while the lowest value is 0.01 indicating that the performance is varied and tend to be low due to the fact that Tobin's Q is less than 1 which indicated that the market value of the company is lower than the value of the assets.

Table 2: Descriptive Information of Corporate Performance

		Return on Assets	Return on Equity	Tobin's Q
Sample	Company	76	76	76
	Time	7	7	7
	Observation	532	532	532
	Missing	0	0	0
Mean		2.12221	3.2633	.8899
Std. Deviation		6.34383	12.66511	1.32445
Minimum		-33.80	-51.70	.01
Maximum		41.14	50.85	13.32

In agreement with the findings of this study, researchers who investigated the industrial and service sectors in Jordan found that the mean of ROA for companies is 1.75 with minimum of - 44 and maximum of 84. In addition, the value of Tobin's Q in previous studies is between 0 and 5 with mean of 1.21 (Makhlouf et al., 2018).

Table 3: Descriptive Information of Muslim directors on Board of Director and audit committee

		Muslim Directors in Board	Muslim Director in AC
N	Company	76	76
	Time	7	7
	Observation	532	532
	Missing	0	0
Mean		.9389	.6690
Std. Deviation		.07847	.41586
Minimum		.49	.03

Maximum	1.00	1.00
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The Describes the Muslim directors in the board. The mean score value of 0.9389 indicates that almost 93% of the board is Muslim. The standard deviation of 0.07847 indicates that the companies have no large differences in term of Muslim directors’ employment. A minimum percentage of Muslim directors in the board is 49% while the maximum is 100%. This is true because Jordan is a Muslim country with 98.2% of the citizens been a Muslim (Al-Fanik, 2005; Ersan, 2014). Most probably, that the companies with 49% Muslim directors are not Jordanian but they are listed in the Jordanian Stock Market.

The Muslim directors in the AC are presented in Table 3. It indicates that the mean of Muslim directors in the AC is 0.6690 indicating that almost 66% of the members are Muslims with median value of one. Standard deviation value of 0.41586 is an indication that all companies share the tendency to have Muslim in the AC. The minimum percentage of Muslim directors in the AC is .03 while the highest is 100%. As mentioned previously, Jordan is Muslim countries with 98.2% of the citizens are Muslims (Al-Fanik, 2005; Ersan, 2014). Nevertheless, the Muslim directors in the board were almost 93% while the percentage decreased to 66.9% in the AC due to the fact that some companies use external AC members from other countries. In addition, it could be due to the use of big four services as external auditing companies.

In term of control variables, this study deployed firm size, leverage, and firm age as a control variables. The descriptive information of these variables is given in Table 4. Values are given in Jordanian Dinar (JD).

Table 4: Descriptive Statistics of Control Variables

		Firm Size	Leverage	Firm Age
N	Company	76	76	76
	Time	7	7	7
	Observation	532	532	532
	Missing	0	0	0
Mean	80,609,351.23	32.9919	24.5950	
Std. Deviation	44,876,279.41	11.47343	10.6832	
Minimum	991,848.00	.02	1.00	
Maximum	445,797,000.00	104.24	59.00	

The table shows that the firm size is highly varied with mean score value of JD 80,609,351.23. The extremely high standard deviation of 44,876,279.41 supports the notion that the firm size is highly varied with minimum size of JD 991,848.00 and highest value of JD 445,797,000.00. This means that the size of the companies is extremely different with differences reached almost JD 900 million Jordanian dinar. Since this study focused on industrial and service companies, the financial companies such as banks are excluded, which is characterized by high volume of assets nearly 50 billion such as Arab Bank in Jordan (Al-Azzam, 2015). Previous study in industrial and service sector in Jordan (Makhlouf et al., 2018) found that the mean of firm size is almost similar to this study.

The result leverage, which is the ratio of total liabilities to total assets, is presented in Table 4. The table shows that the mean score of overall leverage is 32.9919 indicating that the leverage for the sample of this study is almost 33%. The mean is 11.9919 with standard deviation of 11.47343. This standard deviation is an indication that the percentage of leverage among the sample companies are varied to large degree. The minimum percentage of leverage is 0.02% while the highest is 104.24%. In agreement with these findings, previous findings in Jordan showed that the mean accounted for 35% while the minimum and maximum ranged between zeros and 200%. The large maximum could be due to the period of the study which was conducted in shorter time period between 2009 and 2013 (Makhlouf et al., 2018).

The firm age represents the time of the companies in operation since establishment until the current time. Table 4 shows that the mean of firm age is 24.5950. The standard deviation is 10.68320 is high due to the fact that some companies has age of one year while other companies have age of 59 years. Companies with the age of one year is due to the notion that these companies were listed in the starting year of this study. Despite the fact that the listing

started in 1999, the companies were founded before that years in a long time and the findings of this study are in agreement with previous studies in the field (Petri & Saadi-Sedik, 2014).

4.2 Data Examination

The data of this study was examined for missing value, normality, multicollinearity, autocorrelation, and heteroscedasticity. No missing value were found and the data showed normal distribution with value of skewness and kurtosis less than one. The value of variation inflation factor (VIF) is less than 10 indicating that there is no issue of multicollinearity. The data are free from the issue of autocorrelation and heteroscedasty.

4.3 Choosing between Random Effect Model and Fixed Effect Model

Researchers have suggested to examine the suitable regression model to be implemented on the data. There are two models; random effect model and fixed effect model. To determine the suitable model, the Hausman test must be conducted. First the fixed effect model is executed and followed by the random effect model. The null hypothesis stated "H₀: random effect model is appropriate for the panel data" while the alternative hypothesis stated "H_a: fixed effect model is appropriate for the panel data". The comparisons between the two models were conducted for the three dependent variables in this study. The results in Table 5 shows the Hausman test. In all the regression models, the random effect is not appropriate and the null hypothesis was rejected due to the fact that the p-value (sig) is less than 0.05.

Table 5: Hausman Test

Dependent variable	Chi2 (7)	Prob>chi2	Conclusion
Return on Assets	41.03	0.0002	Fixed effect model is appropriate
Return on Equity	34.06	0.0004	Fixed effect model is appropriate
Tobin's Q	49.23	0.0000	Fixed effect model is appropriate

It can be seen from the result in Table 5 that all the p-values (Prob>chi2) is less than 0.05 supporting the rejection of the null hypotheses and accepting the alternative hypotheses that fixed effect model is appropriate for the panel data of this study.

4.4 Regression Results

The result of hypothesis testing for the relationship between the Muslim director on the board of director and audit committee variables with performance (ROA, ROE, and Tobin's Q) is given in Table 6. The Muslim directors on the board have an insignificant relationship with Tobin's Q. In addition, the Muslim director in AC has an insignificant positive relationship with Tobin's Q.

Muslim directors on the board have insignificant effects on return on assets, and the Muslim director in AC has a positive but insignificant relationship with return on assets. Firm size as a control variable has a positive relationship with return on assets. Leverage and firm age have negative relationships with return on assets. The model is significant with F (13, 595) and P-value or Prob>F is 0.000. The R-square is 0.4927 indicating that 49.27% of the variation in return on assets can be explained by the variables of this study.

Muslim directors on the board have an insignificant relationship with return on equity. For the relationship of AC characteristic with return on equity, the findings that Muslim directors in AC have a positive insignificant relationship with return on equity. In terms of firm size and firm age, they have an insignificant relationship with return on equity while leverage has a significant positive relationship with return on equity. The model is statistically significant and can predict 46.7% of the variation in return in equity.

Regarding the control variables, firm size has a positive relationship with Tobin's Q, while negative significant relationships were found between leverage and firm age with Tobin's Q. The model is statistically significant with F (13, 595) at a significance level of less than 1%. In addition, the R-squared is 0.455 indicates that 45.5% of the variation in Tobin's Q can be explained by the variables.

Table 6: The Relationships of IV and Control Variables with DV

	Return on Assets		Return on Equity		Tobin's Q	
	Coefficient	P-value	Coefficient	p-value	Coefficient	p-value
Constant	.1996774	0.016**	.3604089	0.045**	.8872211	0.000***
Muslim Directors in Board	.0300256	0.423	.0502400	0.512	.0398768	0.788
Muslim Director in AC	.0913987	0.268	.0395045	0.436	.0823200	0.455
Firm Size	.8959354	0.000***	.0940473	0.176	.2987876	0.000***
Leverage	-.0812647	0.064*	.2944266	0.000***	-.1654551	0.000***
Firm Age	-.8249336	0.000***	.1111383	0.243	-.3465420	0.021**
F (13, 595)	22.94		19.67		17.88	
Prob>F (P-value)	0.000***		0.000***		0.000***	
R-squared	0.4927		0.467		0.455	

*, **, *** indicates significance at the 10%, 5%, 1%, levels

5. Results Discussion

This study aimed to find the effect of Muslim directors in the board and AC on the performance of companies. The study revealed that the Muslim director in the board has a positive but insignificant relationship with the ROA. For the relationship with the ROE, the findings showed that Muslim directors on the board have an insignificant relationship. In terms of the market performance represented by the Tobin's Q, the findings showed that the relationship between Muslim directors in the board and Tobin's Q is not significant. These findings are in line with the findings of previous studies. The insignificant relationship were derived by previous studies that linked the fact of Muslims are not only after profit but also have a purpose to serve his community and the people in general and this affects the performance of companies (Guiso et al., 2003). In addition, the finding is consistent with that of Haron (2018) who found that the presence of Muslim directors in the board of the firms has little or no impacts on the overall corporate performance. Hence Muslim directors might exhibit a more conservative behavior in running a business, thus lowering firm performance (Guiso et al., 2003). It has been shown that Islamic ethical values affect most corporate top leadership and its management (Abdul Rahman et al., 2018). Moreover, Jordan as a Muslim country most companies' employees at all levels are majorly Muslims (over 90%; Farha and Alkhalailah, 2016). In different contexts of the Muslim nation, it has also been reported that Muslim directors can influence firm performance (Haron, 2018). This justifies the need to include and test this variable in this study to determine whether this variable can entail a better firm performance based on possible religious and spiritual effects in the functions of individuals coupled with corporate laws binding on the same individual.

The findings also showed that the relationship between Muslim directors in AC and ROA is positive but insignificant. Similarly, the findings showed that the relationship between the Muslim director in AC and ROE is positive but insignificant. The findings were derived regarding the relationship between the Muslim director in AC and Tobin's Q showed that the relationship is positive but insignificant. Conversely, the findings of Hassan and Marimuthu (2018) indicated that when the AC is diversified in terms of religion, the performance will be better. This supports the claim of this study that the insignificant effect was a result of the homogeneity of the AC in Jordan where the findings of descriptive analysis showed that almost 95% of the directors are Muslim (Al-Fanik, 2005; Ersan, 2014). Further supports of the insignificant relationship were derived by previous studies that linked the fact of Muslims are not only after profit but also have a purpose to serve his community and the people in general and this affects the performance of companies (Guiso et al., 2003). The insignificant relationships between Muslim director in AC and performance is not consistent with the majority of previous studies. The findings of previous studies indicated that religion is essential and plays a vital role in corporate governance (Hadi et al., 2018; Abu-Ras and Laird, 2011). However, the insignificant relationship between Muslim AC member and performance could be explained based on the notion of brotherhood, as it was argued by researchers that Muslims implement the social

responsibility and are careful not to harm any other human by their action and this creates more conservative behavior in making decision and running a business so that the performance of companies might be affected deeply by this behavior and lower their performance (Guiso et al., 2003). In Islam, profit is allowed but at a certain level. Charging high prices is not allowed to practice in Islam. This could explain the reason behind the insignificant effect as Muslims are expected to make a profit in a just manner between buyer and seller (Grassa, 2016). This shows that Muslims as a member of AC has no relationships with performance in the context of industrial and service companies in Jordan. This could be due to the background nature of this study, where the majority of people are Muslim, and the industrial and service companies have no obligation on Sharia law.

6. Conclusion

Corporate governance is nowadays an important issue for the researcher, policymakers, professionals, investors as being the witness of robust corporate scandals around the world. Some studies have investigated the impact of the Muslim director on performance issues in the developed countries but very few in developing countries. The exiguity of the studies on the impact of the Muslim director on performance motivates us to work on this particular area in Jordan. Therefore, this paper sets its aim to focus on this issue with more insights in Jordan. Previous studies were limited to lower samples. This paper uses more than 684 sample-year observations to draw a more generalized conclusion by covering this gap.

The study is motivated by the gap in the existing literature and the limited evidence concerning the developing countries, specifically in Jordan. We demonstrated a mixed result in terms of the impact of the Muslim director on corporate performance. In general, the results are in line with the theories. Also, the results are consistent with the previous studies.

The current research contains a number of limitations. First, this research focuses only on industrial listed firms on ASE and ignores any other types of listed firms, thus, the findings of the study may not be applicable to other sectors. Thus, companies in the financial sector were excluded because they have different CG rules issued by the Insurance Authority and the Central Bank of Jordan. However, future studies could focus on the financial sector, which is playing an increasingly important role in developing economies, particularly Jordan. This study has many recommendations for future studies. Firstly, this study examined the direct relationship between the Muslim director and performance but there is a lack of previous research examining the moderating or mediating effect of other variables on the relationship between Muslim director and performance such as, enterprise risk management and ownership concentration, among others that will lead to help in improving performance and its effectiveness, especially in Jordan and its neighboring countries. Third, based on the previous studies, there is a paucity of existing literature that examined the association between Muslim director and performance in the emerging countries like the Middle East.

The findings of this study indicate that Muslim directors does not have any relationship with the performance in the context of industrial and service companies in Jordan. This could be because, in Jordan where the overwhelming majority of the people are Muslim, the effect of having Muslims on the board is not distinct. In the countries that have a multicultural background where other religions can be on the board so that the impact of Muslim directors compared to other directors can be clearer. In other words, when the majority is Muslim, their impact on performance is not obvious compared with diversified board. Also, this study focused on the industrial and service companies in which the religion commonly does not have any relationship with the performance compared with Islamic banks.

The findings of this study confirmed that being Muslim as a member of BoD and AC has no relationships with performance in the context of industrial and service companies in Jordan. This could be due to the nature of this study. First, the study was conducted in Jordan where the majority are Muslim. More importantly, this study was conducted on industrial and service companies and these companies usually do not involve Sharia law. The findings could be different if the study was conducted on banks where the issues of Halal, interest rate, and riba have a big and essential impact on the performance of companies. As mentioned previously, the majority of citizens are Muslim with a unit-cultural environment such that citizens will not concern for companies producing non-halal because the common practice in Jordan all products are halal. This could have attributed to the insignificant effect in terms of the relationship between Muslim BoD and AC member and performance in the context of industrial and

service companies in Jordan. Another factor that may have contributed to the positive effect but insignificant will be that Muslim directors in AC in Jordan make a significant impact in the practices in the firm due to their religious belief which regulated the economics, moral, and dealings, regardless of being industrial and service companies, because of largely Islamic practices cut-across Jordanian sectors. It is well fact that the more diversified a board is in terms of religion, the greater the chance for corporate performance; this may be the key reason positive findings obtained in this study though insignificant.

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