How Significantly for Emerging Economies to Benefit From Board Attributes and Risk Management in Enhancing Firm Profitability?

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This paper aims to considerably contribute to the area of corporate governance to be then involved in the new trends testing the role of board attributes as mechanisms of corporate governance to know whether non-financial companies in the developing economies will benefit from these mechanisms in their impact on firm profitability. Thus, the present study tested 100 non-financial companies based on their annual reports in the year of 2020 as a cross-sectional study. The results of testing the variables of the current study revealed that there is a negative link between board of directors size and profitability. On the other hand, the results showed that the managers independency has no relationship with profitability. Likewise, the results revealed that risk management has no effect on profitability.

Keywords: Board attributes, Risk management, Firm profitability, Developing Economies

Artikel ini bertujuan untuk memberikan kontribusi besar pada bidang tata kelola perusahaan untuk kemudian terlibat dalam tren baru yang menguji peran atribut dewan sebagai mekanisme tata kelola perusahaan untuk mengetahui apakah perusahaan non-keuangan di negara berkembang akan mendapat manfaat dari mekanisme ini dalam dampaknya dari profitabilitas perusahaan. Dengan demikian, penelitian ini menguji 100 perusahaan non-keuangan berdasarkan laporan tahunan mereka di tahun 2020 sebagai studi cross sectional. Hasil pengujian variabel penelitian ini mengungkapkan bahwa ada hubungan negatif antara ukuran dewan direksi dan profitabilitas. Di sisi lain, hasil penelitian menunjukkan bahwa independensi manajer tidak memiliki hubungan dengan profitabilitas. Demikian juga, hasil penelitian mengungkapkan bahwa manajemen risiko tidak berpengaruh terhadap profitabilitas.

Kata Kunci: Atribut Dewan, Manajemen Risiko, Profitabilitas Perusahaan, Ekonomi Berkembang
INTRODUCTION

It is known through researches done in the whole world that corporate governance (CG) is known as a great instrument in assessing the firms’ ability of being functional and strong ([Alabdullah, Yahya & Ramayah, 2014; Alabdullah et al., 2014; Alfadhl et al., 2013; Alfadhi and Alabdullah, 2016; Crito, Escrig-Olmedo, & Mottis, 2019]). CG, together with its mechanisms and structures is very useful to monitor the performance of the firm ([Alabdullah, 2019]). The best CG reflects better information to make the firm reach its targets and goals; that’s to reach the effective level of firm profitability ([Alabdullah, 2018]). This made CG strongly appear in the last few decades in several developed and developing countries. This system appeared before a hundred years but in another form as controlling role that has standards, principles and mechanisms that help different parties ([e.g., Alabdullah, 2019; Ahmed, Alabdullah et al., 2020; Alabdullah, 2018; Alabdullah, 2016a, 2016b, 2016c, 2016d, 2017, 2018; Alabdullah, 2018; Alabdullah, 2018]). Its mechanisms are board size, board independency, duality, gender, and ownership structure plus other internal mechanisms.

In spite of the reality that CG is a systematic controlling system that is characterized by its precise mechanisms and principles, yet there is no unified definition that expresses the concept of CG ([Alabdullah, 2019; Alabdullah et al., 2014; Brickley & Zimmerman, 2010]). Accordingly, there is a diversity of meanings for CG that appeared in the literature. For example, CG is considered as a control system to control and concentrate on a firm ([Cadbury Report, 1992]. Alabdullah et al., (2019) demonstrated that CG is also related to the link between owners and agent. They focus on the important case of CG in limiting the probable struggle between these two main parties. In line with such studies, Alabdullah, Ries, & Thottoli, (2008) and Alabdullah et al., (2018) declare that most of academics and researchers are in line with the fundamental notion that CG regulates principles and control mechanisms that aim to make the managers in the companies perform in the best attention of shareholders. As (Bai et al., 2004; Rechner & Dalton, 1989; Yermack, 1996; Zheka, 2006) reveal, CG is the link among shareholders utilized to recognize and oversee company’s performance.

In the 19th century specifically, as explained by ([Alabdullah, 2020; Alabdullah, Yahya & Ramayah, 2014b] there was the obvious start for knowing corporate governance (CG). The known problem is that there is a conflict and gap between managers in the companies and their owners, and as a conclusion there will be undesirable work by the management’s directors that may damage the company as mentioned by ([Alabdullah, 2020; Alabdullah et al., 2019; Alabdullah, Ries, & Thottoli, 2019; Alabdullah et al., 2018; Alabdullah, et al., 2018; Alabdullah, et al., 2016; Alabdullah, Yahya, & Ramayah, 2014b]). Therefore, CG notion emerged to detect relations linked to the board, management branch directors as well as the managers independency, board size, and risk management in the firms and also to link shareholders and other heedful parties. Lastly CG is presently the core mandate for the directors and their work in whole world especially while suffering from a multi-directional pandemic and its serious impacts on the economy, and social and environmental situations ([Alabdullah, et al., 2020]). Bad practices of CG are a result of poor firm’s profitability and consequently may increase the negative impact of the global crises and might increase the fraud and manipulations ([Hebble & Ramaswamy, 2005; Brennan & Solomon, 2008]).

Several studies such as ([Widiatmika and Darma, 2018) admitted that there is a kind of absence in testing deferent variables of good corporate governance that probably have an impact on the company’s profitability. There is a concern in the previous studies towards good practices of CG in the last years in emerging economies (e.g., ([Alabdullah, 2016a, 2016b, 2016c, 2017, 2018, 2020; Alabdullah, 2018; Alabdullah, 2018; Alabdullah, 2018; Alabdullah, 2018; Alabdullah, 2018]). This made CG strongly appear in the last few decades in several developed and developing countries. This system appeared before a hundred years but in another form as controlling role that has standards, principles and mechanisms that help different parties ([e.g., Alabdullah, 2019; Ahmed, Alabdullah et al., 2020; Alabdullah, 2018; Alabdullah, 2016a, 2016b, 2016c, 2016d, 2017, 2018; Alabdullah, 2018; Alabdullah, 2018]). Its mechanisms are board size, board independency, duality, gender, and ownership structure plus other internal mechanisms.

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on risk management and Indonesian banks’ firm performance. They show that Tier-1 capital positively affects risk management, Tier-1 capital also has a significant impact on firm financial performance with its link to risk management as a mediation predictor. The findings show that there is a positive effect of risk management on firm financial performance. Based on the above, we predict the following hypotheses:

H1. There is a negative link between size of the board of directors and profitability.
H2. There is a positive link between managers independency and profitability.
H3. There is a positive link between risk management and profitability.

**METHOD**

The present work covered companies listed in ASE for 100 companies for the year 2020 as a secondary data and cross-sectional study. Accounting data was collected for all variables of the current work; independent and dependent variables. The variables are represented by growth as the dependent variable to reflect the profitability of the company and for the independent variables, we utilized board size, managers independency and risk management as corporate governance mechanisms.

**RESULTS AND DISCUSSION**

In this work, we used multiple regression to recognize the direct link between independent and dependent variable. As explained in Table 1, the Multicollinearity test revealed that the tolerance for the independent variables of the current study were: 0.855 for the board size; 0.892 for managers independency; and 0.944 for risk management. This indicates that there is no problem of Multicollinearity since the value of tolerance is more than 0.1 of all the independent variables. The findings reveal that the value of R square is 0.905 for the growth as shown in Table 2. This indicates that this value explains 90% of the independent variables (board size, managers independency and risk management) on the dependent variable which is growth.

**CONCLUSION**

Corporate governance (CG) is extremely important system because the company is like a vehicle by which the majority of economy produces most of its services and goods and therefore how it is governed is definitely essential for the investors in the company that already work in the company and for the executives and eventually for the society as a whole. Therefore, it is very important for all sectors; financial and non-financial ones. It is very important to realize how companies are owned in the developed countries and those that are owned in the developing countries. Nonetheless, in general, we need to control and apply new links with profitability in most companies. There are poor results by several studies that have not tried to link corporate governance to future growth from new perspectives as the current work has done so. Therefore, we need to have influence and new mechanisms that have positive impact on firm profitability. Thus, we see indeed that the variables of the current work are structured in a different way then we all think they should be structured.

This study revealed that more independency of managers in the board, having risk management committee in the firm, and small board size lead to promote firm profitability, that is linked to what has been argued by agency theory to control conflicts via its explanation of the relationship between the three independent variables of the current study and their relationship with firm profitability. Our results admitted that there is a negative impact of the small board size on profitability in listed companies in Jordanian context. In addition, its results regarding risk management showed that there is a significant positive influence on firm profitability.

The results add to the argument about the need for testing new link among the existing variables that were tested by the previous studies but have lost the contribution to the area of corporate governance. Also it showed that independency of the managers in Jordanian companies has an insignificant link. This means that this variable is considered as a very important issue and it does matter in this context.

The limitation of this study is that it did analysis just to the non-financial listed firms in Jordan and did not take into account the financial sector. Therefore, for future studies, they should test whether or not that the findings will be the same as ours because CG effectiveness is similar in all countries around the world particularly between developed and developing economies.

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| Variables          | Tolerance Value | VIF  |
|-------------------|----------------|------|
| Board size        | 0.855          | 1.175|
| Managers independency | 0.892        | 1.046|
| Risk management   | 0.944          | 1.027|
| Csize             | .878           | 1.139|
### Table 2: R Square of growth

| Model     | Growth |
|-----------|--------|
| R Square  | 0.905  |
| Sig F Change | .000  |
| Variables                  | Beta  | Sig.  |
|----------------------------|-------|-------|
| Board size                 | -0.917*** | 0.000 |
| Managers independency      | 0.027 | 0.417 |
| Risk management            | -0.018 | 0.318 |
| Size                       | 0.012 | 0.749 |

*Sig. p < .10.. **p < .05... ***p < .01