

Corporate Governance and Its Impact in Determining the Strategic Orientation

Hasan Ali Al-Zu'bi (Ph.D)

Professor, Head of the Department of Business Administration
Applied Science Private University, Amman, Jordan, Amman, Jordan
E-mail: zubi1963@yahoo.com

Majeda Galeb AL-Zoubi (Ph.D)

Retail Executive, Revlon Company, Amman – Jordan, Amman, 11192 Jordan
E-mail: mz_zoubi@yahoo.com

DOI: 10.6007/IJARBSS/v6-i5/2158 URL: <http://dx.doi.org/10.6007/IJARBSS/v6-i5/2158>

Abstract

This study aims to recognize the impact of Corporate Governance in defining Strategic Orientations of the Jordanian Islamic Banks, the study sample in selected from the three Jordanian Islamic Banks working in Jordan. Due to the special importance of this study, and to ensure the quality of the final results obtained, the sample selected for the current study all hold or are in charge of senior management positions, who numbered (168). The Study generated many findings, the most important of which are: The results presented that there is a positive correlation between the Corporate Governance and the Strategic Orientations, in addition to, there is a statistically significant impact for the Corporate Governance variable in the strategic orientations at the Jordanian Islamic Banks.

In light of the results and conclusions of the study, the following recommendations were suggested: Enhance the work environment in the banking and corporate governance practices by enhancing governance culture among all personnel, and to recognize the significant benefits arising from the practice of governance.

Keyword: Corporate Governance, Strategic Orientation, Islamic Banks. Jordan.

Introduction

The events experienced by the global economy led toward the development from the concept of corporate governance at the top of the attention of business and financial organization's society. Since the year 1997 the date of the Asian financial crisis to the financial crisis in the past decade, all the events showed the importance of corporate governance as a platform optimized for the treatment and prevention of crises. Many organizations also contributed toward the emergence and clarity of this concept further into existence, such as the International Monetary Fund and the World Bank, which caused cases of bankruptcy and collapse that hit many companies in the United States and most countries around the world which to an increase led interest to the concept of governance, and to advocate for the need to

apply in earnest, particularly in the banking sector, where there is interest to apply the principles and mechanisms of governance, which helps greatly in determining that might help protect them from falling into financial losses and scandals. We also find that the business organizations began to seek to change its mechanism through interest related to the organization with external parties, because governance is no longer just a concept linking the boards of directors, managers and stakeholders, but also extended to include more.

Successful organizations characterized by their ability to develop a vision of an effective strategy, based on a focused and thorough study, the external and internal environment for the organization, the successful and strategic vision are in which they can develop strategic goals and objectives in the organization, and strategic orientation. Strategic orientation is the foundation upon which business organizations achieve success, that guides it to launch towards the desired future, and express how they will achieve the strategic objectives of the organizations, Also corporate governance the strategic orientation organizations to realize its goals, areas of external activity, in addition to knowledge a better of the products and services they offer.

Conceptual Framework

Corporate Governance

The concept of corporate governance of modern concepts that have emerged recently, where this concept occupied a large space beyond the business world. Studies on this concept were numerous, as many international organizations have contributed towards the emergence and clarity of this concept further into existence. Governance term created unstable conditions, especially in light of the conflict of interest between the parties to economic processes, pursue a policy of privatization, the launch of free-market forces, shaking confidence in the markets, and the loss of thousands of investors, ownership and separation from the administration. All these reasons have led to the weakening of control over the actions of mechanisms managers, and the occurrence of financial and administrative corruption, which increased the size of the financial collapses and large losses suffered by the business organizations (Khudairi, 2005).

Governance as defined by many researchers including, Wheelen and Hunger (2012) who defined it as a relationship involving three main destinations in the Organization of capital, labor and expertise in order to identify orientations and performance of the organization. Defined (Cadbury Committee, 1992) governance in general as the integrated under which system the company is managed and monitored (United Nations, 2003) This reflects the definition of basic governance function, whereby; the organization funds control, and supervision of persons engaged in the management, whether they are elected or appointed.

The term Corporate Governance refers to the full control over the organization procedures, which involved many of the key stakeholders in the governance of the organization. It occupies strategic location managers because of their expertise as a result they make daily decisions, as the Board of Directors is formal legal authority over the organization's policy. For shareholders, whether individuals or institutions, a stake in the organization, allows them influence in some of the policies, in addition to employees represented by unions, and finally the government who are involved within the governance process, through the development of laws and

regulations, which companies abide by (Post et al, 1996). And governance is considered as a system whereby management organizations, particularly business organizations, which are run by individual owners. It also includes governance of all public and private organizations, and non-profit organizations as well. The governorship on the distribution of rights and responsibilities among different participants within the organization, such as the board, managers, shareholders, and other stakeholders, as it is through the work rules of governance which determine the decision-making procedures in the affairs of the organization, providing a structure through which the objectives in the organization and the means to achieve these status goals, as well as work to monitor its performance (Carpenter & Sanders, 2007). At the level of this study, it will be the adoption of the principles of corporate governance adopted by the Jordanian Islamic banks set by the Central Bank of Jordan, namely: Disclosure and transparency, Protection of shareholders, Responsibilities of the board of directors, and Board size.

Strategic Orientation

Addressing administrative literature in general and in particular, the strategic topic of strategic orientation of the various aspects, according to different intellectual styles of researchers and writers, and the point of view of each of them on the concept of strategic orientation. However, it is with all the differences and diversity; they eventually agreed about the importance of and the need for strategic orientation in all organizations, and its role in achieving competitive advantages and competitive progress.

Gatignon & Xuereb (1997) explained that the strategic orientation defined by the entrance of the organization through which the implementation of plans to achieve superior levels of performance compared to competitors, a specific approach to the organization applied for access to the superior and sustained in the course of their work performance.

The strategic orientation gives organizations guidance on continual improvement of performance requirements, and the strategic orientation reflects the level of awareness of organizations within the environment surrounding their organizations managers, Rose's actions of developments and environmental changes, he pointed again to the strategic orientation of the organization, which includes the development of a long-term strategic vision for its destination. Thus, the strategy represents the effectiveness of the internal resources of the organization, capabilities, and core capabilities to accomplish the objectives of the organization in the competitive environment, and access to global leadership, and includes a major expansion of the organization's resources and capabilities, and core competencies (Hitt, et al., 2000). Strategic orientation is really a culture-led conviction, the thought, and the values of top management, and the strategic orientation the values system cares continually to meet the needs of customers, and employee participation, and make decisions based on data, and enhance teamwork, and establish a long-term vision (Hynes, 2009).

Wheelen & Hunger (2008) explained that the strategic orientation of the organization is required to determine its orientation towards growth through the three questions, reflect the content of the strategic orientation as follows:

1. Does the organization to expand or retreat, or continue with its current operations without change?
2. Does the organization to focus on the current activities in the current framework of the industry or the diversity of their activities in other industries?
3. When you want the organization to achieve the targeted growth or expansion on a national or global level in this area do they tend to achieve this through the development of internal capabilities or through external sources through Acquisition strategies, mergers, and alliances?

There are many strategic orientation's patterns, and researchers have disagreed in the adoption of strategic orientations, some classify them, into six strategic orientations, and other into four strategic orientations. At the level of this study, it will be adopting styles agreed upon by both (Venkatraman's, 1989; Morgan et al., 2009), namely: Aggressiveness Strategic Orientation, Defensiveness Strategic Orientation, Proactiveness Strategic Orientation, and Riskiness Strategic Orientation.

The study questions

The study seeks to answer the following questions:

1. What is the level of applying the principles of corporate governance in the Jordanian Islamic banks?
2. What are the most strategic orientations, depending on the Jordanian Islamic banks?
3. Is there an effect for applying the principles of corporate governance in determining strategic orientation of the Jordanian Islamic banks?

Objectives of the study

The study attempts to achieve the following objectives:

1. Diagnosis of the level of applying the principles of corporate governance in the Jordanian Islamic banks.
2. Evaluate the impact of corporate governance in determining strategic orientation of the Jordanian Islamic banks.
3. Provide recommendations based on the results of the study, thereby enhancing the role of the adoption of applying the Corporate Governance in determining the strategic orientation.

Proposed Model

In light of the study the problem and achieve its goals, it has been building the model year of the study presented by Figure (1), indicating the variables of the study and measurement of the dimensions of each of them, where is the independent variable of corporate governance, dependent variable is strategic directions.

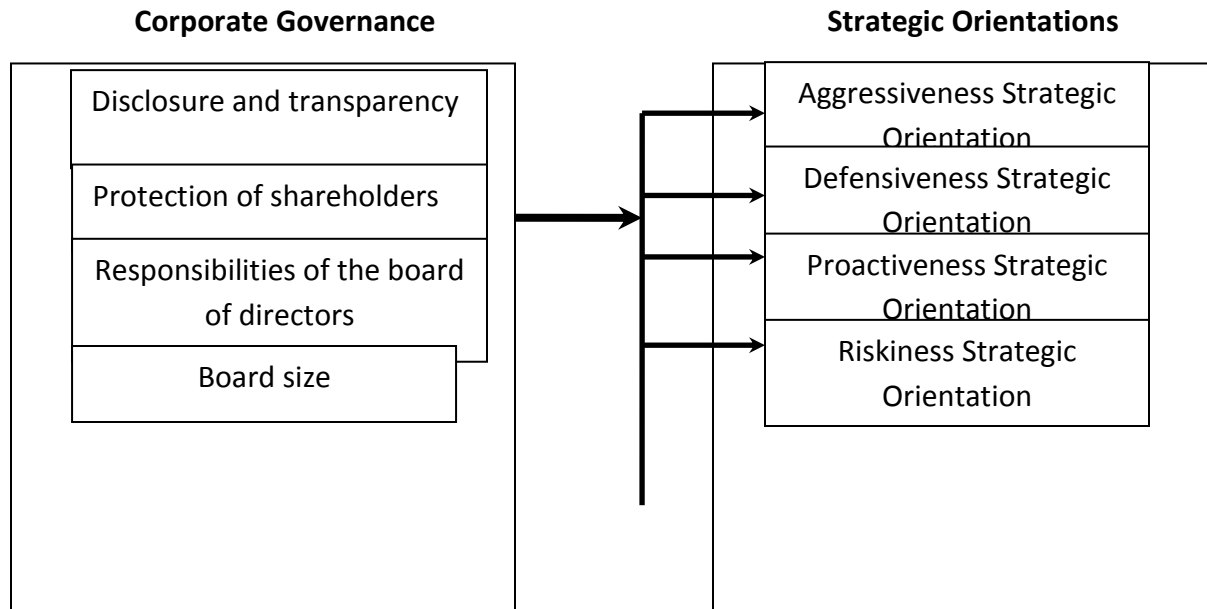


Figure (1): Proposed Model

Hypotheses of the study

Ho1: There is no significant impact of corporate governance on strategic orientations (aggressiveness strategic orientation, defensiveness strategic orientation, proactiveness strategic orientation, and riskiness strategic orientation).

Then testing the sub-hypotheses; to confirm the validity of the main hypotheses, a simple regression was used to predict the innovative behavior from impact of electronic knowledge:

Ho1-1: There is no significant impact of corporate governance on aggressiveness strategic orientation.

Ho1-2: There is no significant impact of corporate governance on defensiveness strategic orientation.

Ho1-3: There is no significant impact of corporate governance on proactiveness strategic orientation.

Ho1-4: There is no significant impact of corporate governance on riskiness strategic orientation.

Methodology of the Study:

Population and Sample

The study population consisted of all Jordanian Islamic banks, the number (3) banks. The study sample consisted of managers in the Jordanian Islamic banks who are functional in the following positions: (Executive Director, Deputy Director General, directors of departments and heads of departments).

Were distributed (212) questionnaire to a sample study, the return of a total of (173), and after examining the questionnaires show that there are (5) questionnaires are not valid for the analysis process, and this number of valid questionnaires be analyzed as a whole (168) questionnaire at a rate (79%) of the total distributed questionnaires.

Study Measures

Corporate governance variables which include:

Variables	Source
Disclosure and transparency	Chen et al,2006
Protection of shareholders	Sanda,2005
Responsibilities of the board of directors	Mohammad&
Board size	Sulong,2010

Strategic orientations variables which include:

Variables	Source
Aggressiveness Strategic Orientation	Hynes,2009
Defensiveness Strategic Orientation	Morgan & Strong ,
Proactiveness Strategic Orientation	1989
Riskiness Strategic Orientation	Venkatrman,1989

Instrument validity and reliability

Instrument validity:

The study tool was evaluated by academics in universities in the field of business administration to check the veracity of the questionnaire, and the ability to measure the variables of the study.

Instrument reliability:

It has been confirmed reliability of study tool using the reliability coefficient Cronbach Alpha. Internal consistency level has been very good, which makes it possible to rely upon in the study, since all Cronbach Alpha values have exceeded the acceptable ratio which is 60% (Sekaran, 2006).

Results and Discussions

To test the first main hypotheses and its sub-hypotheses, simple regression was applied, the results were as following:

Ho1-1: There is no significant impact of corporate governance on aggressiveness strategic orientation.

From table (1), R value represents simple correlation and is 0.313, which indicates that the relationship between two variables is generally considered a moderate effect size. The R² value indicates how much of the total variation in the aggressiveness strategic orientation can be explained by corporate government. In this case, 9.8% can be explained; while the remaining proportion (91.2%) can be explained by other variables are not included in the regression model.

F-test to determine whether the model is a good fit for the data. According to this Sig., it is. Since (F =18.073, p ≤ 0.05), which indicates that, overall, the regression model statistically significant.

The Coefficients table provides the necessary information to predict the aggressiveness strategic orientation from corporate governance, as well as determine whether corporate governance contributes statistically significantly to the model. Besides, Beta values for corporate governance had reached (0.313) which indicate that predicting (31.3%) of aggressiveness strategic orientation. from corporate governance. In other words, the results can be interpreted as (For every unit increase in corporate governance, there is a 31.3% unit increase in the predicted aggressiveness strategic orientation).

Based on these results, null hypothesis should be rejected and accept the alternative hypothesis that referred “There is a significant impact of corporate governance on aggressiveness strategic orientation at ($p \leq 0.05$).”

Table 1. Simple Regression Results

Variable	R	R ²	F	Sig. F	Beta	T	Sig. T
Aggressiveness strategic orientation	0313	0.098	18.073	0.000	0.313	4.251	0.000

Ho1-2: There is no significant impact of corporate governance on defensiveness strategic orientation.

From table (2), R value represents simple correlation and is 0.389, which indicates that the relationship between two variables is generally considered a moderate effect size. The R² value indicates how much of the total variation in the defensiveness strategic orientation can be explained by corporate government. In this case, 15.1% can be explained; while the remaining proportion (84.9%) can be explained by other variables are not included in the regression model. F-test to determine whether the model is a good fit for the data. According to this Sig., it is. Since ($F = 29.592, p \leq 0.05$), which indicates that, overall, the regression model statistically significant.

The Coefficients table provides the necessary information to predict the defensiveness strategic orientation from corporate governance, as well as determine whether corporate governance contributes statistically significantly to the model. Besides, Beta values for corporate governance had reached (0.389) which indicate that predicting (38.9%) of defensiveness strategic orientation from corporate governance. In other words, the results can be interpreted as (For every unit increase in corporate governance, there is a 38.9% unit increase in the predicted defensiveness strategic orientation).

Based on these results, null hypothesis should be rejected and accept the alternative hypothesis that refers “There is a significant impact of corporate governance on defensiveness strategic orientation at ($p \leq 0.05$).”

Table 2. Simple Regression Results

Variable	R	R ²	F	Sig. F	Beta	T	Sig. T
Defensiveness Strategic Orientation	0.389	0.151	2.592	0.000	0.389	5.440	0.000

Ho1-3: There is no significant impact of corporate governance on proactiveness strategic orientation.

From table (3), R value represents simple correlation and is 0.596, which indicates that the relationship between two variables is generally considered a moderate effect size. The R² value indicates how much of the total variation in the proactiveness strategic orientation can be explained by corporate government. In this case, 35.5% can be explained; while the remaining proportion (64.5%) can be explained by other variables are not included in the regression model. F-test to determine whether the model is a good fit for the data. According to this Sig., it is. Since (F =91.328, p ≤ 0.05), which indicates that, overall, the regression model statistically significant.

The Coefficients table provides the necessary information to predict the proactiveness strategic orientation from corporate governance, as well as determine whether corporate governance contributes statistically significantly to the model. Besides, Beta values for corporate governance had reached (0.596) which indicate that predicting (59.6%) of proactiveness strategic orientation from corporate governance. In other words, the results can be interpreted as (For every unit increase in corporate governance, there is a 59.6% unit increase in the predicted proactiveness strategic orientation).

Based on these results, null hypothesis should be rejected and accept the alternative hypothesis that refers “There is a significant impact of corporate governance on proactiveness strategic orientation at (p≤ 0.05).”

Table 3. Simple Regression Results

Variable	R	R ²	F	Sig. F	Beta	T	Sig. T
Proactiveness Strategic Orientation	0.596	0.355	91.328	0.000	0.596	9.557	0.000

Ho1-4: There is no significant impact of corporate governance on riskiness strategic orientation. From table (4), R value represents simple correlation and is 0.204, which indicates that the relationship between two variables is generally considered a moderate effect size. The R² value indicates how much of the total variation in riskiness strategic orientation can be explained by corporate government. In this case, 4.2% can be explained; while the remaining proportion (95.8%) can be explained by other variables are not included in the regression model. F-test to determine whether the model is a good fit for the data. According to this Sig., it is. Since (F =7.199, p ≤ 0.05), which indicates that, overall, the regression model statistically significant.

The Coefficients table provides the necessary information to predict the riskiness strategic orientation from corporate governance, as well as determine whether corporate governance contributes statistically significantly to the model. Besides, Beta values for corporate governance had reached (0.204) which indicate that predicting (20.4%) of riskiness strategic orientation from corporate governance. In other words, the results can be interpreted as (For every unit increase in corporate governance, there is a 20.4% unit increase in the predicted riskiness strategic orientation).

Based on these results, null hypothesis should be rejected and accept the alternative hypothesis that refers “There is a significant impact of corporate governance on riskiness strategic orientation at ($p \leq 0.05$).”

Table 4. Simple Regression Results

Variable	R	R ²	F	Sig. F	Beta	T	Sig. T
Riskiness Strategic Orientation	0.204	0.042	7.19	0.008	0.204	2.683	0.008

Conclusion and Recommendations

Results of the study showed that there are statistically significant effects of corporate governance in the strategic directions at the Jordanian Islamic banks, applying the principles of corporate governance in Islamic banks is not inconsistent with the principles and provisions, where these banks seek to achieve two goals, the first goal of achieving financial profits and meet shareholder needs. The second objective of the application of Islamic religious principles in banking operations, The strongest correlation between corporate governance and proactiveness Strategic Orientation, as the value of R = (0.596) and the value of beta = (59.6%), and contribute to apply the principles of governance in banks to achieve good reputation among employees and customers, and is a good tool for companies working to reduce the risk of unethical practices and non-legal.

Based on the findings from the study, the following recommendations were suggested: the most important: Enhance the work environment in the banking and corporate governance practices by enhancing governance culture among all personnel, and to recognize the significant benefits arising from the practice of governance, The appointment of a specialized control Commission of all the public and private sector institutions to ensure compliance with correct application of standards of governance, and encourage interest and continuously strategic orientations in Jordanian banks and stimulate all administrative levels to participate in it, because of what is left of a positive impact on performance.

References

- Hynes, Niki, (2009). Corporate culture, Strategic Orientation, and business performance: New Approaches to modeling complex relationships. *Technological Forecasting and Social Change*, 76(5), 644-651.
- Morgan , Robert E & Strong , Carolyn A., (1998). Market Orientation and dimension of strategic orientation. *European Journal of Marketing*, 32 (11/12), 1051- 1073.
- Venkatrman. N.(1989). *Strategic Orientation of Business Enterprise (The Construct, Dimensionality, and Measurement)*. Massachusetts Institute of Technology, Sloan School of Management, Cambridge.
- Sanda, Ahmadu; Mikailu, Aminu S.& Garba, Tukur (2005).Corporate Governance Mechanisms and Firm Financial Performace in Nigeria . AERC Research Paper 149. *African Economic Research Consortium*, Nairobi. <http://bldscat.ids.ac.uk>.
- Mohammad, Wan Izyani & Sulong, Zunaidah (2010).Corporate Governance Mechanisms and Extent of Disclosure. *International Business Research*, 3(4), 216-228.
- Chen , Carl R. , Weiyu Guo and Vivek Mande (2006).Corporate Value , Managerial Stokholdings and investments of Japanese Firms . *Journal of International Financial Management and Accounting*, 17(1), 29-51.
- Sekran, uma.(2006). *Research methods for business*. .3rd Ed, John Wiley &sons, USA.
- Wheelen, Thomas L. & Hunger, J. David, (2008). *Strategic Management and Business Policy*. 11th Ed, Pearson Education Inc., Upper Saddle River, New Jersey.
- Wheelen, Thomas. Hunger, David. (2012). *Strategic Management and Business Policy*. 13th Ed. Pearson education Inc. , United States of America.
- Gatignon, Hubert & Xuereb, Jean-Marc (1997). Strategic Orientation of the Firm New Product Performance. *Journal of Marketing Research*, 34 (1), 77-90.
- Hitt,Michael A,M . Tina Dacin, Edward Levitas, Jean-Luc Arregle, and Anca Borza (2000). Partner Selection in Emerging and Developed market Contexts: Resourse-Based and Organizational Learning Perspective. *Academy of Management Journal*, 43 (3), 449-467.
- Morgan, Neil A; Douglas W. Vorhies and Charlotte H. Mason (2009). Market Orientation, Marketing Capabilities and Firm Performance. *Strategic Management Journal*, 30, 909–920.
- Post. James, Frederick. William, Lawrence. Anne, Weber. James (1996). *Business And Society (Corporate Strategy, Public Policy, Ethic)*. 8th Ed, McGraw- Hill, Inc.
- United Nations (2003). *Selected Issues In Corporate Governance (Regional And Country Experiences)*. United Nations Publication, New York and Geneva.
- Carpenter, Mason. Sanders, Wm. Gerard. (2007). *Strategic Management (A dynamic perspective)*. 2nd Ed. Pearson education, Inc., New Jersey.
- Khudairi, Mohsen (2005). *Corporate Governance*. Cairo: Arab Nile Group.