INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES

Vol 16, Issue 1, (2026) E-ISSN: 2222-6990

Merger and Acquisition Governance in Jordan: A Critical Legal Analysis

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DOI Link: http://dx.doi.org/10.6007/IJARBSS/v16-i1/27426

Published Date: 18 January 2026

Abstract

This article critically examines the legal framework governing mergers and acquisitions (M&A) in Jordan, with particular reference to the Companies Law No. 22 of 1997. Although the existing framework facilitates corporate restructuring in principle, it remains characterised by legislative ambiguity and insufficient governance safeguards. The study identifies several structural deficiencies, including the absence of clear statutory definitions of mergers and acquisitions, weak protection for minority shareholders and creditors, inadequate disclosure obligations, and the lack of mandatory independent valuation mechanisms. These deficiencies generate legal uncertainty, increase litigation risks, and undermine investor confidence in the M&A process. Using a qualitative doctrinal research methodology, this article analyses statutory provisions, regulatory instruments, and selected judicial decisions to evaluate the effectiveness of the current legal regime. The findings reveal that legislative gaps have compelled the judiciary to rely on interpretative intervention, resulting in inconsistent and unpredictable outcomes. This article contributes to the literature by providing a governance-oriented critique of Jordan's M&A framework and proposing targeted legal reforms aligned with international best practices. It recommends legislative clarification, enhanced minority shareholder exit rights, strengthened creditor protection mechanisms, mandatory independent valuation requirements, and expanded disclosure obligations to promote transparency, fairness, and regulatory certainty in Jordan's corporate restructuring landscape.

Keywords: Mergers and Acquisitions (M&A), Minority Shareholder Protection, Corporate Governance

Introduction

Mergers and acquisitions (M&A) have become central mechanisms for corporate restructuring, market consolidation, and economic growth in modern economies. In emerging markets such as Jordan, an effective legal framework governing M&A is not only essential for

facilitating corporate transactions but also for safeguarding market integrity, protecting stakeholders, and enhancing investor confidence. Recognising this, Jordan's Economic Modernisation Vision emphasises the need for a transparent and investment-friendly business environment, in which corporate governance plays a critical role.

Despite the strategic importance of M&A to Jordan's economic development, the legal framework governing these transactions remains underdeveloped from a governance perspective. The Companies Law No. 22 of 1997, together with related regulatory instruments, provides a procedural basis for M&A activity but exhibits significant gaps in definitional clarity, procedural safeguards, and stakeholder protection. These deficiencies generate legal uncertainty, elevate transaction risks, and weaken confidence in the regulatory system. In this regard, contemporary governance theory conceptualises regulation not merely as a compliance tool, but as an institutional framework that shapes fairness, transparency, and accountability in corporate decision-making.

The objective of this study is to critically analyse the legal framework governing mergers and acquisitions in Jordan through a governance lens, with particular focus on legislative clarity, procedural adequacy, stakeholder protection, and alignment with international best practices. The scope of the analysis is limited to corporate M&A transactions governed by Jordanian statutory law, complemented by relevant regulations and judicial decisions

This study makes an original contribution to existing scholarship by reframing the discussion of Jordanian M&A regulation through a governance-oriented analytical framework. While prior studies primarily address structural or financial aspects of M&A, this article highlights the legal-governance dimensions particularly gaps in definitional clarity, minority protection, valuation, and disclosure which have received limited academic attention. By doing so, the study offers new insights into how governance principles can be embedded into Jordan's M&A regime to enhance transparency, accountability, and stakeholder confidence.

Literature review

Legal Framework Governing Mergers and Acquisitions in Jordan

The legal framework governing mergers and acquisitions (M&A) in Jordan operates at the intersection of corporate governance, competition regulation, and risk management. Although this framework is designed to facilitate corporate restructuring and promote market efficiency, growing scholarly discourse highlights the need for regulatory refinement to enhance compliance, strengthen competition, and improve governance standards within the M&A landscape.

M&A governance in Jordan is regulated through a combination of statutory provisions and regulatory instruments. The principal legislative framework consists of the Companies Law, Banking Law, Securities Law, and the Law of the Profession of Legal Accounting. In parallel, Jordan has fully adopted International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA), signalling formal alignment with international benchmarks on financial disclosure, transparency, and accountability. These standards play a particularly significant role in M&A transactions, where accurate valuation and information symmetry are essential to informed decision-making and stakeholder protection.

Regulatory oversight of M&A transactions involving listed companies is primarily exercised by the Jordan Securities Commission (JSC). The JSC issued its first Corporate Governance Code in 2006, which was subsequently revised in 2017 to strengthen governance principles, disclosure obligations, and board accountability. This framework is complemented by the Securities Depository Centre (SDC), which has issued Codes of Corporate Governance grounded in the principles of the Organisation for Economic Co-operation and Development (OECD). Sector-specific supervision is further provided by the Central Bank of Jordan in relation to banking institutions and by the Insurance Commission for insurance companies. Collectively, these arrangements reflect a fragmented yet multi-layered governance structure governing M&A activity in Jordan.

Beyond institutional arrangements, the effectiveness of merger and acquisition governance depends on the strength and coherence of the underlying regulatory framework. Scholarly literature emphasises that comprehensive regulatory governance plays a critical role in mitigating risks inherent in M&A transactions, including market, credit, and financial risks. Chernov observes that well-designed regulatory frameworks function not merely as compliance mechanisms but as governance tools that enhance oversight, reduce systemic risk, and promote fair competition within the market (Chernov, 2023).

This perspective, widely reflected across multiple jurisdictions, underscores the importance of coherent regulatory supervision in ensuring that M&A activities contribute to market stability rather than regulatory arbitrage. Within the Jordanian context, this governance-oriented understanding of regulation reinforces the need to assess whether existing legal and institutional arrangements provide adequate oversight and effective risk management in merger transactions, particularly as corporate restructuring becomes increasingly complex.

A further characteristic of Jordan's corporate governance framework is the distinction between mandatory and voluntary compliance. Although listed companies are formally required to adhere to JSC regulations and sector-specific governance guidelines, implementation has historically been characterised by a degree of flexibility. Corporate governance codes were initially introduced on a voluntary basis, with a gradual transition towards mandatory compliance. While recent regulatory reforms increasingly favour compulsory enforcement, practical implementation continues to allow companies a degree of discretion and adaptation over time, raising questions about the consistency and effectiveness of governance standards in practice.

The legal framework establishes several core governance mechanisms relevant to M&A transactions, including board independence, the establishment of audit committees, shareholder protection measures, disclosure obligations, and internal control systems. Companies are required to implement effective internal controls and risk management policies, as well as ensure timely and accurate disclosure of financial and non-financial information. Listed companies must disclose audited financial statements, ownership structures, and corporate governance practices, thereby promoting transparency and accountability in corporate restructuring activities. Nevertheless, the effectiveness of these mechanisms in safeguarding stakeholder interests during M&A transactions remains subject to ongoing regulatory and scholarly scrutiny.

Corporate Governance Structures and M&A Compliance

Integrating advanced corporate governance structures can also strengthen regulatory effectiveness. Sert discusses the concept of a "compulsory one-tier corporate governance structure" as a potential alternative to traditional antitrust mechanisms such as concentration control, suggesting that it could enhance compliance in specific contexts (Sert, 2025). This idea is particularly relevant to the ongoing development of M&A frameworks in Jordan, considering the country's dynamic regulatory landscape. Tyufanova further supports the importance of robust antitrust compliance, arguing that adherence to both national and international regulations is essential for fostering competition and economic stability (Tyufanova, 2021). International comparisons can provide valuable lessons for reforming Jordan's M&A legal framework. Various studies explore how regions like the EU and the US manage similar challenges within their merger policies. Fügemann examines the evolution of regulatory policies concerning mergers, analyzing the correlation between merger activity and profitability in diverse economic contexts (Fügemann, n.d.). Such insights could guide Jordan in adapting successful practices to its unique environment.

Governance Failures and Economic Consequences of Weak M&A Regulation

It is crucial to acknowledge the potential consequences of failing to improve Jordan's merger governance. Pathak's analysis of anti-competitive practices within mergers and acquisitions (M&As) suggests that inadequate merger regulations may result in the underutilization of key intellectual assets. This situation poses a particular risk to Jordanian businesses, as an ineffective legal structure may hinder economic growth and market competitiveness (Pathak, n.d.).

Governance Gaps in Jordan's M&A Legal Framework

Despite the strategic importance of mergers and acquisitions to Jordan's economic development, existing scholarship indicates that the legal framework under the Companies Law No. 22 of 1997 exhibits persistent structural weaknesses. These weaknesses manifest in several dimensions.

First, the absence of clear statutory definitions of "merger" and "acquisition" has resulted in conceptual ambiguity and inconsistent interpretation by corporate actors and courts. Second, procedural safeguards remain underdeveloped, particularly in relation to minority shareholder valuation rights and creditor protection mechanisms. Third, the lack of mandatory independent valuation and comprehensive disclosure requirements has contributed to disputes over fair value and information asymmetry.

Collectively, these governance deficiencies have compelled courts to fill legislative gaps through judicial interpretation, raising concerns about legal predictability and regulatory coherence.

In summary, proposed reforms to the legal framework governing mergers and acquisitions in Jordan should prioritize improving regulatory clarity, adopting innovative corporate governance models, and ensuring compliance with antitrust laws. By integrating insights from both local and international contexts, Jordan can establish a robust framework that mitigates risks and supports sustainable economic development in an increasingly complex market.

Methodology

This study adopts a qualitative doctrinal research methodology. Primary sources include the Companies Law No. 22 of 1997, securities regulations, and corporate governance codes governing mergers and acquisitions in Jordan. Secondary sources comprise academic literature on corporate governance and merger regulation. Doctrinal and content analysis are employed to evaluate governance gaps, regulatory coherence, and stakeholder protection within Jordan's M&A framework.

Findings

The analysis of the Jordanian Companies Law No. 22 of 1997 and relevant judicial decisions reveals a legal framework for mergers and acquisitions that is procedurally permissive but substantively underdeveloped. Several key deficiencies emerge.

First, definitional and conceptual ambiguity remain a central weakness. The Companies Law does not provide clear statutory definitions of "merger" and "acquisition," nor does it distinguish systematically between different forms of mergers, such as mergers by absorption and mergers by consolidation. This lack of conceptual clarity has led to inconsistent interpretations by legal practitioners and courts, resulting in uncertainty regarding the classification and regulation of corporate restructuring transactions.

Second, procedural insufficiency and lack of detailed safeguards are evident. Although the law prescribes general steps for implementing mergers and acquisitions, including board approval and extraordinary general meeting resolutions, it fails to specify detailed requirements concerning timelines, documentation standards, and the substantive content of merger plans. This leaves significant discretion to corporate actors and increases the risk of uneven practices across transactions.

Third, weak protection for minority shareholders is apparent. The framework relies heavily on majority approval without providing dissenting shareholders with explicit statutory rights to demand fair valuation or to exit the company at a fair price. As a result, minority shareholders may be compelled to accept unfavourable terms without effective legal remedies.

Fourth, creditor protection mechanisms remain passive and limited. While creditors are entitled to be notified of proposed mergers or acquisitions, the law does not establish a robust procedure enabling them to object, seek guarantees, or secure their claims against the post-merger entity. This exposes creditors to heightened risk where corporate restructuring materially affects the financial position of the merged company.

Fifth, the absence of mandatory independent valuation constitutes a significant governance gap. The law does not require transactions to be supported by expert valuation of shares or assets, leaving the determination of exchange ratios largely to the negotiating parties. Judicial disputes, including those reflected in cases such as Judgment No. 347/2015, illustrate the practical consequences of this omission.

Finally, reliance on judicial gap-filling has become a defining feature of Jordan's M&A regime. In the absence of clear statutory guidance, courts—particularly the Court of Cassation—have been compelled to resort to general principles of civil law and equity to resolve disputes, as

seen in Case No. 1824/2008. While this has enabled dispute resolution, it has also resulted in fragmented and sometimes inconsistent jurisprudence.

Discussion

The findings indicate that Jordan's M&A legal framework prioritises transactional facilitation over governance quality and stakeholder protection. Although procedural permissiveness may lower formal barriers to corporate restructuring, it simultaneously creates governance vulnerabilities that undermine transparency, accountability, and legal certainty.

Definitional ambiguity and procedural vagueness weaken the predictability of M&A transactions and increase reliance on legal interpretation rather than statutory guidance. From a governance perspective, such uncertainty elevates transaction costs, prolongs completion timelines, and increases exposure to post-merger litigation. These outcomes are inconsistent with the expectations of domestic and foreign investors, who depend on clear regulatory standards when engaging in complex corporate transactions.

The limited protection afforded to minority shareholders and creditors reflects a governance imbalance that favours controlling shareholders and acquiring entities. In the absence of statutory valuation rights or exit mechanisms, minority shareholders remain vulnerable to coercive restructuring strategies. Similarly, passive creditor notification mechanisms fail to provide meaningful safeguards against the erosion of creditor interests. These deficiencies undermine the inclusive stakeholder model increasingly recognised as central to sound corporate governance.

The lack of mandatory independent valuation and comprehensive disclosure obligations further exacerbates information asymmetry. In contemporary M&A practice, valuation and disclosure serve not merely as technical requirements but as governance tools that constrain opportunistic behaviour and enhance market confidence. Jordan's failure to institutionalise these mechanisms places its M&A regime at odds with international governance standards.

Judicial gap-filling, while demonstrating institutional adaptability, cannot substitute for clear legislative design. Case-by-case adjudication produces fragmented outcomes and shifts the burden of regulatory coherence from the legislature to the courts. Over time, this reliance on judicial discretion risks eroding doctrinal consistency and undermining the legitimacy of regulations.

From a broader economic perspective, these governance deficiencies have significant implications for Jordan's investment environment. As Jordan seeks to advance its Economic Modernisation Vision and attract sustainable investment, a fragile and unpredictable M&A governance framework may deter cross-border transactions and long-term capital commitments. Effective M&A governance is therefore not merely a technical legal concern but a structural component of economic development and market stability.

Conclusion

This study concludes that the existing legal framework governing mergers and acquisitions in Jordan requires substantive modernisation to effectively support responsible economic growth and sound corporate governance. Although the Companies Law provides a procedural

basis for M&A transactions, persistent legislative gaps continue to generate legal ambiguity, governance risks, and unequal stakeholder outcomes. These deficiencies undermine transparency, weaken investor confidence, and are inconsistent with the objectives of a modern and competitive market economy.

The analysis demonstrates that meaningful reform must focus on strengthening governance mechanisms embedded within the M&A process. Legislative clarification is required to provide precise statutory definitions of mergers and acquisitions and to establish clear procedural guidance for their implementation. Equally important is the enhancement of minority shareholder protection through explicit valuation and exit rights, alongside stronger creditor safeguards that move beyond passive notification towards effective participation and protection. The absence of mandatory independent valuation and comprehensive pre-merger disclosure further exacerbates information asymmetry and increases the risk of unfair outcomes, highlighting the need for regulatory intervention in these areas.

From a broader perspective, reforming Jordan's M&A framework is essential to ensuring that corporate restructuring contributes to fairness, accountability, and market stability. By strengthening transparency, stakeholder protection, and regulatory certainty, Jordan can align its M&A governance regime with international best practices and reinforce its broader economic modernisation objectives. A governance-oriented approach to reform would position mergers and acquisitions not merely as transactional tools, but as instruments of sustainable and inclusive economic development.

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