

The Effect of Corporate Governance on the Quality of Internal Audit within Industrial Corporations (Mining and Extraction) in Jordan

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DOI Link: <http://dx.doi.org/10.6007/IJARBSS/v4-i6/973>

Published Date: 28 June 2014

Abstract

This study aimed to identify the effect of Corporate Governance on the quality of internal audit within industrial corporations (mining and extraction) in Jordan. To achieve the objectives of the study, a questionnaire was designed to collect data and distribute it to the study community. The study sample consisted of (459) financial and accounting managers, the chairmen of accounting, financial, and internal audit within industrial corporations. The study has been using the statistical package of Social Sciences (SPSS) to analyze the data and the results were shown. Results of the study: effect of institutional governance according to its dimensions on the quality of internal audit within industrial corporations (mining and extraction). In light of the results, the study recommended a number of recommendations, namely: commitment to the standards of institutional governance and working to make available a practical evidence for governance within institutions.

Keywords: Institutional Governance: Transparency, Accountability, Justice. Quality of Internal Audit: Eligibility, Work Performance Quality, Objectivity.

Theoretical Framework :

recently, the concept of " Institutional Governance " have emerged and received a great attention from the international community due to its growing significance in facilitating business and settlement and avoiding crises within financial and non-financial institutions as a result for fraud in data of the institution.

Many companies have broken and bankrupted such as Eronic company for auditing in 2001 , Worldcom which is the second communication companies in the world in 2002 , Zerox , and Merak . In addition, the international financial crisis that affected the whole world in general And the USA in particular , this crisis emerged due to the crisis of mortgage and the inability to payback the values of mortgage loans as loses were estimated by 104 trillion \$ in addition to milliards in other Arab and foreign countries (Alfarajat, 2007).

Interests in institutional governance has expanded in many countries with advanced and developed economics , in particular as a result of economic breaks and crises witnessed by

east Asia countries , Latin America, and Russia within 1990s of the 20th century (Al-Majali,2009).

Due to the series of crises within the financial environments, distrust toward auditory , control, and administrative systems has resulted and lead to the application of the institutional governance principles that included shareholders' rights, the equal treatment toward shareholders, the role of stakeholders , disclosure and transparency , board of directors' responsibilities , and the presence of an effective framework for institutional governance . Hence, institutional governance offers the appropriate frame through which the company can draw its goals and the necessary methods to achieve these goals and to work on supervising performance (Hassan, 2006).

Institutional governance became one of the requirements for rational administration within institutions worldwide. Institutional governance is also among the mechanisms for achieving administrative reform processes , avoiding any risks through reinforcing the principles of justice , transparency, clearness and disclosure , control and responsibility, clearly determining responsibilities and relationships between the whole parties which leads to the appropriate spheres to achieve the vision and the goals of the institution that leads in turn to reach the desired message of the institution in a way that ensures the best exploitation of its resources (Institutional Governance Guide, 2008). The significance of institutional governance comes from that it is an important tool to deter future financial crises , and to create a competitive market within an economic community based on ethical and legislative laws, Alfarajat, 2007 in addition , institutional governance offers the base and the structures for constructing and developing the future institutional performance, Institutional Governance Guide, 2008.

The concept " Institutional Governance " is a controversial one and has enhanced a clear doubt and conflict regarding translating or localizing it into Arabic language and defining it accurately despite the agreement on the importance of the concept and the necessity of putting it forward and using it . The concept has been used under various Arabic terms such as : Governing , rational governance, and administrating the country and the society affairs , Yousef, 2003.

This might be attributed to that the concept is a new one relatively as it emerged in the late 1980s as indicated in the international bank reports in 1989 on economic development and the fight against corruption in Africa . In 1990s, there was a large focus on the concept and was used largely in particular I the USA and west Europe after the democratic shift in east Europe in the late 1989s. Within this frame, many various contributions have emerged by which it could be inferred a discription for the concept of institutional governance that include two basic dimensions Mahmoud, 2006.

First : the concept expresses the relationship between the state apparatus and governance in the one hand , and between civil community institutions and the private sector in the other and the role of each in administrating the state. For the frame of the increased state inability to meet the citizens' needs – in developing and poor countries in particular- , civil community and private sector participation in holding societal development burdens became an urge necessity. There have been the question about the limits of each role and the nature of participation that can formulated among them. The concept of institutional governance then gives a different role

for the government and reduces its specialties and duties to instruction and supervision , a role with which state abdicates practicing several public services that were a part of its basic function to civil community and private sector.

Second : the concept refers to a group of concepts that represent a standard for governance or rational governance , among these concepts : transparency and accountability, control, competency , effectiveness of state administration institutions , empowerment and participation. According to the extent these standards are available, it is possible to distinguish the so called governance ,and the good administration or governance and the poor administration.

For the Hashemite Kingdom of Jordan , Al-Oqdah et al , 2008, indicated that Jordan has gone so far in applying institutional governance to solve its institutions' problems , but the results were less than expectations , that is , there were other reasons which weren't detected or resolved accurately , and these are legal problems and obstacles that make it necessary to exert more efforts and put forward more procedures to achieve transparency for resolving problems within a company and to achieve harmonization between its costumers' benefits and interests , these efforts and procedures includes for example separating property from administration within Jordanian companies and the necessity to power devolution within directors' board , in addition to start accountability toward directors' board for its works , and to achieve separation between the position of presidency of directors' board and vice chairman , and to allow the publication of real reports for auditors regarding Jordanian institutions' performance , and these are the basics and starting points for institutional governance .

Institutional Governance and its Effect on Industrial public Corporations' Performance :

Industrial public corporations' performance is represented in achieving the organizational goals , magnifying the outcomes using the resources with high competency as companies focus on the unique elements that distinguish the company from other companies which are regarded as an axis to evaluate the financial and nonfinancial indicators for the company in addition to assess tangible and intangible assets Al-A'li et.al, 2006.

Kotler, 2000 indicated four factors that lead to a distinguished institutional performance
a- Distinguished performance is achieved through determining stakeholders (costumers, workers, processors and distributors) as organizations realize that they have to meet the stakeholders' needs and desires.

b- Managing the basic businesses processes represented by developing new products, attracting clients, reducing costs , and meeting the needs to enable the company of achieving its own goals.

c- The appropriate allocating for human , material, information, and financial resources as when implementing processes the company needs to allocate appropriate resources for its processes.

d- An effective administration that is able to draw a clear and known strategy for workers and about what the company seeks to achieve and how to achieve it.

Main features of institutional governance :

Transparency : means openness and disclosure, confrontation and creativity to provide workers with the ability to openly give their perspectives and point of views without avoiding sensitive or disturbing issues but confronting them and working on resolving them as one team away from fear and threatening with punishment, Ruth, 2004.

Disclosure : the application of institutional governance concept within the Arabic environment became a necessary requirement to contribute in the success and the growth of the financial market with great returns and advantages on developing the national economy. In brief, the power of institutional governance requires creating an interaction between the external and the internal systems among the requirements of the companies' system and the issued vocational standards in the one hand , and between directors' boards and revision boards in the other hand. The company must also make available a disclosure and provide investors and audience with all the necessary information they need in making investment decisions, Abu Al-So'ud, 2006.

Accountability : it aims to subject all workers and employees for accountability based on need and circumstances , and to give each individual his/her right , and to treat all individuals equally in law without discrimination . And this should include the whole aspects of the administrative work which in turn requires the existence of legislations to ensure this Margret. Et.al . 2007 .

Justice and Equality : respecting the rights of all the groups and stockholders within the organization , Alfarajat, 2007. The principle of equality is regarded as one of the most important bases upon which the achievement and standers of institutional governance depend as the principles of institutional governance make it an obligatory requirement to establish equality among stakeholders . Adherence to the principles of disclosure and transparency is also included within the most important principles of equality between stakeholders as the availability for a single information for all of them at the same time is within the bases of justice and protecting the rights of the minority of stakeholders , Suliman,2006.

Research problem statement

Internal audit and internal auditors' morals represent a complex and an important issue within business organizations as they are related to the structures of auditor's behaviors and morality that reflect his/her moral response . As businesses still a controversial issue in organizational studies , the view to which has rooted with the change and decline in the role of the state in adhering to its part of responsibility in favor of the private sector. Hence, not applying institutional governance by business organizations has undesired effects in many aspects such as the professional behaviors of internal auditors which negatively reflected on the quality of their performance in the position of audit which in turn reduces investors' expense in financial lists and threatens the future of growth and surviving for these organizations . From what is mentioned above, the problem of the study would be presented by answering the following major research question:

What is the effect of institutional governance on the quality of internal audit within industrial corporations (mining and extraction) in Jordan?

From this question , the following research sub-questions have been formulated:

- 1- What is the evaluation level of employees working in industrial mining and extraction corporations in Jordan (participants) for the dimensions of institutional governance: transparency, accountability, and justice ?
- 2- What is the evaluation level of employees working in industrial mining and extraction corporations in Jordan (participants) for the dimensions of internal audit quality : eligibility, work performance quality , and objectivity?

Objectives of the research

This study attempts to achieve the following goals :

- 1- Identifying the effect of institutional on internal audit quality within industrial corporations in Jordan (mining and extraction) .
- 2- Identifying the evaluation level of employees (the participants) within industrial mining and extraction corporations in Jordan for the dimensions of institutional governance: transparency, accountability, and justice.
- 3- Identifying the evaluation level of employees (the participants) within industrial mining and extraction corporations in Jordan for the dimensions of internal audit quality : eligibility, work performance quality , and objectivity.
- 4- Providing industrial mining and extraction corporations in Jordan with recommendations based on the findings of this study that might assist in facilitating the performance of these corporations.

Importance of the study

- 1- The significance of this study lies in the fact that this study investigates the institutional governance and its effect on the quality of internal audit within industrial mining and extraction corporations in Jordan .
- 2- In addition, the significance of this study comes from being as an attempt to add some scientific facts in the field of assessing institutional governance effect on the quality of internal audit so as to support work morals in industrial corporations' activities.
- 3- The researcher hopes that this study will contribute with a group of results and recommendations that in turn contribute in facilitating the performance of industrial public corporations by rooting the level of industrial corporations managers' understanding for institutional governance.

Hypotheses of the study :

there is no significant statistical effect at ($\alpha > 0,05$) for institutional governance with its dimensions (transparency , accountability , and justice) on internal audit quality with its dimensions (eligibility, work performance quality , and objectivity) of internal audit "within industrial corporations (mining and extraction) in Jordan".

Design and Methodology

The study followed the descriptive field analytic approach which is more likely to work with quantitative data in order to answer the questions about relationships among measured variables with the purpose of explaining, predicting & controlling phenomena. Thus, the aim this approach is to generalize from a representative sample to a whole population Leedy & Ormrod, 2001.

The design was quantitative because the data took a numerical form. That is, by employing a deductive approach with a quantitative research method, This approach also allows for testing the research hypotheses & generalizing the research findings to the population , Zikmund, 2003. The methodological approach in this research is a descriptive one, because the researcher attempts to identify, explain variables of this research and to describe the relationships between these variables in order to provide with an image of a particular phenomenon, but not to explain cause-effect relationships ,Churchill & Iacobucci, 2002.

Population and Sample of the study :

The population of the study consisted of the whole public industrial corporations which accounted for 87 corporations based on the annual report of Amman Stock Exchange market . For the sample , the researcher selected a random simple sample that included 459 members of financial and accounting managers, the chairmen of accounting , financial , and internal audit divisions within industrial corporations (mining and extraction) which accounted for 6 corporations as shown table (1) below:

Table (1) Corporations Included in the Study Sample

No	Corporation
1	Jordanian Metal
2	The National Company for Steel Industries
3	Jordanian Marble
4	Jordanian Phosphate Mines
5	The United for Metal Industries
6	The Arab Potash Company
Total	

Tool of the study :

The researcher developed a tool for the purpose of collecting field data from the study sample after reviewing the related literature and the previous studies related to the topic of this study . An integrated tool was developed to reflect the variables of the study to test the hypotheses of the study.

Data Analysis Technique

The researcher used SPSS software to test the study's hypotheses by using different statistical techniques, these techniques are:

1. Cronbach's alpha: used to test the reliability of the scale.
2. Means and standard deviations for the variables, to explore the existence and importance of every variable according to the sample of the study.

3. Data were entered into SPSS according to the Likert scal. The instrument of the study was scaled as follows: Strongly disagree Disagree Undecided Agree Strongly agree.
4. Test the hypotheses using regression analysis.

Consistency of the tool

Test was performed Cronbach alpha to ensure the consistency of the study tool , and this is a test through which the internal consistency of respondents' responses within the study are explained in relation with the whole items on the assessment tool . Cronbach's Alpha was calculated for each dimension of the tool separately as shown in table (2).

Table (2) Cronbach's Alpha Values The dimensions of the study

No	Variable	Cronbach's Alpha
Institutional Governance with its Dimensions		
1	Transparency	0.739
2	Accountability	0.859
3	Justice	0.905
Quality of Internal Audit		
1	Eligibility	0.779
2	Work Performance Quality	0.789
3	Objectivity	0.735
Tool as whole		0.81

Results

First : to answer the first research question, means and standard deviations were calculated for the whole dimensions related to institutional governance and its dimensions (transparency, accountability, and justice) and those of the quality of internal audit (eligibility, work performance quality, and objectivity) . Results are shown in table (3) below.

Table (3) Averages and standard deviations for all areas relating in dimensions of institutional governance

No of dimension	Items	Mean	SD	Order	Effect
1		3.61	1.02	3	Medium
2		3.81	1.12	2	Medium
3		3.90	1.03	1	High
Total mean and SD		3.74	1.06	High	

Table (3) above shows the means and SDs for the dimensions related in the institutional governance variable and means came in the range between 3,61 and 3,90 with the dimension of justice at the first order with a mean of 3.90 and an SD of 1.03 and this is attributed to the fact that the company is interested in the stakeholders rights and giving no priority to the benefits of the company and stockholders over the public advantage. The dimension of transparency came second with a mean of 3.61 and an SD of 1.02 , and that was because

transparency within industrial corporations requires high professional and strict control to gain stability and trust.

Table (4) Averages and standard deviations of the dimensions of quality of internal audit

No of dimension	Items	Mean	SD	Order	Effect
1	Eligibility	3.66	1.01	2	Medium
2	Work perform: quality	3.77	1.01	1	High
3	Objectivity	3.66	1.00	2	Medium
Total mean and SD		3.60	1.06	Medium	

From table (4) , it could be concluded that means and SDs of the variable of quality of internal audit came between the ranges 3.66 and 3.77 as the dimension of work performance quality came first with a mean of 3.77 and an SD of 1.01 while both the eligibility and objectivity came next with a mean of 3.66 and SDs of 1.01 and 1.00 respectively.

Second : Testing Hypotheses .

The main hypothesis :

there is no significant statistical effect at ($\alpha > 0,05$) for institutional governance with its dimensions (transparency , accountability , and justice) on internal audit quality with its dimensions (eligibility, work performance quality , and objectivity) "within industrial corporations (mining and extraction) in Jordan". as shown in table (5).

Table (5) Regression analysis for institutional governance with its dimensions on internal audit quality

Variable	R	R ²	F Value	B	df	Sig
Effect of institutional governance on internal audit quality	0.35	0.12	55.24	0.31	1	0.00
					457	
					458	

Table (5) indicates a significant statistical effect of institutional governance with its dimensions on quality of internal audit with its dimensions . R reached (0.35 and this is a positive value at the value ($\alpha > 00.5$) while R2 reached (0.12) which indicates that about 55,24 of variance in the quality of internal audit is resulted from institutional governance . β value reached 0.31 and the significance of this effect is ensured by the value shown in the ANOVA schedule through testing calculated f which reached 55.24 and this value is significant at ($\alpha > 00.5$) Consequently **there is a significant effect for institutional governance with its dimensions (transparency, accountability, and justice) at the internal audit quality with its dimensions (eligibility, work performance quality, and objectivity) "within industrial corporations (mining and extraction) in Jordan"**.

Results :

1- Results indicated that means and standard deviation that relate in the dimensions of the institutional governance variable were high as their means ranged between 3.61 and 3.90 with the dimension of justice at the first order with a mean of 3.90 and a standard deviation of 1.03 , followed by the dimension of accountability with a mean of 3.81 and a standard deviation of 1.12 , and finally came the dimension of transparency with a mean of 3.61 and a standard deviation of 1.02 , and this is because transparency within industrial corporations requires high professional and strict control to restore stability and trust within these corporations

2- Results also indicated that the means and standard deviation of the dimensions of internal audit were high as means ranged between 3.66 and 3.77 as the dimension of work performance quality came first with a mean of 3.77 and a standard deviation of 1.01 , followed by the dimensions of eligibility and objectivity with the same mean (3.66) and standard deviations of 1.01 and 1.00 respectively .

3- Finally, the results indicated significant statistical effect for institutional governance according to its dimensions on the quality of internal audit as R coefficient reached 0.35. It is strong and has a positive and statistically significant at the level of ($\alpha > 0,05$).

Recommendation:

In light of the results obtained from the theoretical framework of the study, and those obtained from the statistical treatment of the data , the study concluded with the following recommendations :

- Commitment to the standards of institutional governance and working to make available a practical evidence for governance within institutions.
- industrial corporations should continue to commit to rules and regulations as they influence the quality of internal audit by reinforcing legislations and regulations through preparing reports about institutional governance standards and morals similar to those of the international bank and its notes.

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