Global Business and Management Research: An International Journal
Vol. 16, No. 3 (2024)

Examining the Impact of Board of Director Committees on the Financial Stability and Performance of Banks

Abdulsalam Abuhamra
Graduate School of Business, Universiti Sains Malaysia
Gelugor, Malaysia

Phaik Nie Chin*
Graduate School of Business, Universiti Sains Malaysia
Gelugor, Malaysia
Email: phaikniechin@usm.my

Yuvaraj Ganesan
Graduate School of Business, Universiti Sains Malaysia
Gelugor, Malaysia

** Corresponding Author*

Abstract

Purpose: This study investigates the consequences of governance structures, mainly board committees, on the performance and financial stability of operational banks in Jordan.

Design/methodology/approach: This study utilizes a quantitative deductive method, employing panel data analysis from secondary sources such as annual reports and central bank data in Jordan to examine the correlation between board of director committees and bank performance. The technique seeks to offer a thorough comprehension of how board committees impact the efficiency and robustness of banks within the Jordanian banking sector.

Findings: The panel regression results underscore the nuanced relationships between board committee characteristics and bank performance. While certain factors, such as audit committee size and GDP growth, appear to positively influence financial outcomes, the implications of gender diversity within committees and market capitalization present more complex dynamics that merit further exploration.

Research limitations/implications: Due to a potentially limited sample size of banks, constraints related to data availability and quality, the study's time frame possibly restricting the capture of long-term effects, the influence of unaccounted external factors, and methodological constraints that could impact the robustness of the conclusions.

Practical implications: Stakeholders can effectively utilize the study's findings to enhance governance practices, decision-making processes, and regulatory frameworks in the banking sector, ultimately contributing to a more stable and prosperous financial environment.

Originality/value: The study on board of director committees and financial stability in Jordanian banks stands out for its unique focus on the impact of board committees in an emerging market context. It incorporates agency theory to offer fresh insights.

Keywords: board committee, bank performance, remuneration and compensation committee, audit committee.

Classification: research paper.

Introduction

The stability and performance of banks have attracted significant attention in recent years, particularly in emerging markets where financial systems are still developing. Effective corporate governance is recognized as a critical factor influencing the resilience and efficiency of financial institutions. In the context of Jordan, the banking sector faces unique challenges that necessitate a thorough examination of governance structures, especially the roles played by board of director committees. These committees are essential in ensuring that banks operate transparently and with accountability, which is vital for maintaining stakeholder trust and achieving long-term success (Haghighi and Takian, 2024).

Despite the acknowledged importance of corporate governance, there is a significant lack of research in the literature about the precise influence of board committees on the performance and financial stability of banks in Jordan. Previous studies have primarily focused on publicly traded companies, overlooking the distinct regulatory and operational characteristics of the banking sector. This exclusion raises inquiries on the optimization of governance structures to improve the performance and stability of banks in this area.

The research problem, therefore, centers on understanding the dynamics between board of director committees and their influence on bank performance; it seeks to address the lack of empirical evidence on how these governance structures interact with financial outcomes in the banking sector. However, the banking sector in Jordan has faced performance challenges due to economic volatility, political uncertainties, and regulatory constraints (Al Amosh et al., 2023). These factors have hindered bank growth and profitability, contributing to an overall decline in performance. Additionally, the sector has grappled with a rise in non-performing loans to 5.5% and a 4.04% decrease in total capital among operating banks (central bank of Jordan, 2023), highlighting inadequate risk management practices and a lack of innovation. Addressing these challenges is crucial for ensuring the stability and long-term viability of Jordan's banking sector. Jordan's banking sector has shown resilience in the face of global economic crises, maintaining strong levels of regulatory capital across the whole system. Conversely, banks still face challenges such as low profitability, significant risk concentration, and considerable sovereign exposure (IMF, 2023). Strengthening Jordan's financial stability framework is imperative to address these issues and enhance banking sector resilience.

Research suggests that the board of directors has a crucial role in addressing challenges raised by agency theory. Agency theory posits that the division of ownership and control results in conflicting interests between owners and managers who are in control (Jensen and Meckling, 2019). Furthermore, board committees contribute to a governance framework that includes both the board of directors and management. Agency theory underscores the importance of relational capital among board directors, encompassing both formal and informal connections (Oliveira et al., 2022).

Limited research exists on integrated agency theory in the context of the banking sector of Jordan, prompting this study to address this gap by examining its application within board of director committees. Moreover, the study aims to propose actionable strategies for Jordanian banks to navigate economic challenges. This includes assessing how corporate governance factors influence banks' financial health and growth. Recently, Jordan's banking sector has garnered academic interest across disciplines for its unexplored characteristics (Ishola Ibrahim and Adabenege Yahaya, 2023). By employing agency theory to explore the factors impacting board committees and bank performance, this research aims to deepen insights into governance mechanisms, strategic implications, and organizational dynamics affecting performance outcomes in financial institutions.

The subsequent sections of this work are structured as follows: Section 2 provides a comprehensive examination of the existing body of literature and presents the process of hypothesis testing. Section 3 provides a detailed explanation of the process used to collect data and the specific approach employed. Section 4 proceeds to present and analyze the result. Sections 5 and 6 ultimately provide a summary of the findings, discuss the limits of the study, and propose potential directions for further research.

Literature Review

Agency Theory

A contractual arrangement known as an agency involves two or more parties, in which one, referred to as the principal, grants authority and responsibility to the other, called the agent, to execute particular duties (Jensen and Meckling, 2019). By aligning incentives with performance and fostering accountability, agency theory contributes to improving governance mechanisms and overall organizational effectiveness (Fama and Jensen, 1983; Jensen and Meckling, 2019). The issues associated with agency problems can be mitigated through various procedures and practices of corporate governance under the agency model. Prior research has examined internal governance mechanisms aimed at enhancing financial performance, such as board compositions and the management of conflicts of interest between shareholders and managers (Jensen and Meckling, 2019). Resolving agency issues would bring the interests of shareholders and management into harmony, resulting in enhanced performance and greater value.

Review of Corporate Governance and its Impact on Banks' Performance

Financial metrics are frequently used to assess banking institutions' financial success. Profitability ratios play a crucial role in evaluating bank performance by providing valuable insights into their capacity to manage risks and expand operations. Key metrics such as return on assets and return on equity are widely utilized to gauge the profitability of banks. Analysts and regulators rely on these indicators not only to assess current bank performance but also to forecast changes in market dynamics, including potential bank mergers and failures (Sharma et al., 2020).

Return on Assets (ROA) is a quantitative measure utilized to evaluate both the financial performance and managerial effectiveness of a company. It underscores management's capability to generate revenue from assets and to utilize assets efficiently in generating income (Singh, 2023). The profitability ratio indicates the percentage of profit relative to the company's total assets, offering a clear insight into the company's profitability level.

Return on Equity (ROE) serves as a key financial ratio for assessing a bank's performance and efficiency by measuring the profit generated from shareholders' investments. The relationship between a bank's profitability and financial success is closely tied to its ROE, with a higher ROE indicating greater operational efficiency (Ibrahim and Yahaya, 2023). However, despite its prevalent use in financial research, ROE is not universally regarded as the most appropriate measure of bank performance. For instance, banks that lower their debt ratios or increase their equity may exhibit a higher ROA while simultaneously reporting a lower ROE. This inconsistency arises because ROE fails to consider the heightened risks associated with elevated leverage levels and the regulatory constraints that influence leverage. The relationship between ROA and ROE is significant. However, using ROA as an alternative metric for assessing financial performance can provide valuable insights into investor and shareholder sentiments toward a company's common shares (Ibrahim and Yahaya, 2023).

Literature Review and Hypothesis Development

Audit Committee (AC)

The increasing attention on the composition of corporate boards, especially audit committees, stems from their significant influence on firm performance. The importance of gender diversity within board structures has gained traction, with researchers examining its effects on organizational outcomes. Evidence suggests a direct correlation between the presence of women on boards, particularly in audit committees, and improvements in decision-making, risk management, and governance practices (Sharma et al., 2020). Gender diversity in audit committees brings a wider array of perspectives and experiences, which, according to agency theory, can foster more thorough discussions and enhance decision-making processes (Norman et al., 2011). Furthermore, having a diverse audit committee can bolster the organization's reputation and foster trust among stakeholders. Agency theory emphasizes the role of stakeholder relationships in reducing agency costs, and a diverse audit committee reflects a commitment to inclusive governance, potentially boosting stakeholder confidence and leading to improved financial performance (Biswas et al., 2023)

Conversely, some scholars, such as Unite et al. (2019), have found that male and female directors exhibit comparable levels of competence. Additionally, research indicates that increasing gender diversity on corporate boards may not significantly impact the financial success of organizations.

Arnaboldi et al. (2020) further concluded that there is no substantial link between the proportion of women on corporate boards and organizational financial performance specifically ROA, and ROE. Based on these insights, the following hypothesis is proposed:
H1a): AC gender diversity has a positive effect on bank performance.

A larger audit committee is anticipated to improve bank performance through various mechanisms. Firstly, an expanded committee size can introduce a wider array of expertise and perspectives into the decision-making process, fostering more robust discussions and leading to better-informed decisions. This diversity in skills and knowledge within the audit committee is likely to enhance risk management practices, improve oversight of financial reporting, and strengthen governance mechanisms within the bank (Tham, 2024). Furthermore, a larger audit committee may reflect a stronger commitment to governance and oversight functions, signaling to stakeholders and investors the bank's dedication to transparency and accountability. Such perceptions of effective governance can bolster the bank's reputation and trustworthiness, ultimately enhancing its market performance (Chakravarty and Hegde, 2022).

Additionally, a larger audit committee facilitates more thorough monitoring of the bank's operations, internal controls, and compliance with regulatory standards (Ghafran and O'Sullivan, 2013). This increased level of oversight can help mitigate risks, identify potential issues early, and ensure adherence to industry standards, thereby contributing to overall improved bank performance. According to agency theory, the diversity within the committee enhances its capacity to assess risks, evaluate financial reporting, and challenge management decisions effectively. A well-rounded committee is better equipped to identify potential agency problems and provide comprehensive oversight, ultimately benefiting shareholders (Chakravarty and Hegde, 2022). In conclusion, the hypothesis suggests that a larger audit committee size is positively correlated with enhanced bank performance. This study aims to explore the impact of audit committee size on ROA, and ROE, offering valuable insights into the role of governance structures in influencing the success and sustainability of banks:
H1b): AC size has a positive effect on bank performance.

Nomination and Remuneration Committee (NRC)

The Nomination and Remuneration Committee (NRC), also referred to as the remuneration and compensation committee, serves as a subordinate entity within a company's board of directors or supervisory board (Aldegis et al., 2023). The NRC plays a critical role in the careful selection of new board members and the evaluation of existing members. The presence of gender diversity among non-executive directors within the NRC can significantly enhance decision-making, risk management, and strategic development, ultimately leading to improved overall performance. Gender diversity is recognized as a key factor in mitigating agency costs (Akram and Abrar, 2022). Increased board diversity can facilitate access to additional resources, aligning with the principle of resource reliance. Moreover, it ensures the representation of various stakeholders, which is essential from a stakeholder perspective (Keasey et al., 1998). Agency theory underscores the necessity of effective monitoring mechanisms to minimize agency costs. A gender-diverse NRC can strengthen oversight of management practices concerning nominations and remuneration. The inclusion of diverse perspectives fosters more thorough scrutiny of executive compensation packages and succession planning, ensuring alignment with the long-term objectives of the bank and its shareholders. This enhanced oversight can help mitigate excessive risk-taking and promote sustainable performance (Ibrahim and Yahaya, 2023).

Furthermore, a diverse NRC can facilitate the selection of board members with a wider range of experiences and viewpoints, leading to more effective supervision and governance processes within the bank (Ibrahim and Yahaya, 2023). The findings indicate that both NRC independence and gender diversity exhibit bivariate relationships with bank financial performance. While some studies have suggested that compensation committees may negatively impact corporate performance, Campbell and Mínguez-Vera (2008) argued that greater gender diversity could lead to diverse opinions and critical thinking, which might make the decision-making process more complex and less efficient., the hypothesis can be articulated as follows:
H2a): NRC committee gender diversity has a positive effect on bank performance.

A larger NRC composed of diverse members can significantly enhance the decision-making process regarding board appointments, executive compensation, and talent management by bringing a wider array of expertise, perspectives, and skills. This diversity fosters more informed and well-rounded discussions, which can lead to improved decisions that positively influence organization performance (Aldegis et al., 2023). The varied composition of a larger NRC allows for comprehensive discussions and innovative solutions, ultimately contributing to better-informed decisions that enhance bank performance (Sharma et al., 2020). Moreover, a larger NRC can improve decision-making agility by promoting dynamic and inclusive discussions. With a diverse group of members, the committee is better equipped to consider a broader range of viewpoints, respond effectively to changing market conditions, and adapt strategic approaches to optimize bank performance in a competitive landscape. The hypothesis that an increase in NRC size positively affects bank performance is supported by the potential advantages of having a larger and more diverse committee, which include diverse perspectives, enhanced oversight, improved resource allocation, and greater stakeholder engagement. Additionally, a larger NRC can facilitate more thorough evaluations of executive compensation and succession planning. According to agency theory, effective monitoring is crucial for minimizing agency costs. A larger committee can conduct comprehensive reviews of management performance, ensuring that compensation packages align with the bank's strategic objectives and shareholder interests. This thorough evaluation process can lead to better decision-making, improved financial performance, and reduced conflicts of interest (Ibrahim and Yahaya, 2023). However, it is important to note that a larger NRC may also introduce challenges related to decision-making efficiency. Increased complexity, potential conflicts, and difficulties in reaching consensus can arise with a greater number of members. Consequently, decision-making processes may become slower, less decisive, and more susceptible to disagreements, which could hinder the committee's ability to make timely and effective decisions that impact bank performance (Akram and Abrar, 2022). Therefore, the hypothesis can be articulated as follows:
H2b): NRC committee size has a positive effect on bank performance.

Figure 1 illustrates the research framework.

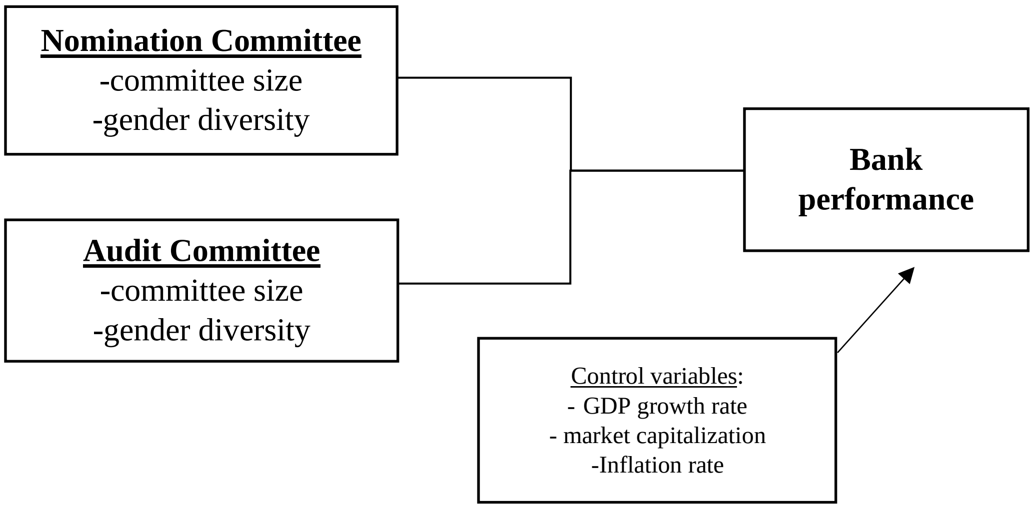

Figure 1 Conceptual Framework

Method

The study employed secondary data sources, specifically annual reports, documents filed with stock exchanges, and governmental agencies, to observe financial ratios, ensuring the most appropriate and unbiased approach. Prior studies have consistently advocated for the preference of secondary data sources (Sharma et al., 2020). Quantitative methods are deemed most suitable for data analysis in this study, which utilizes a quantitative deductive approach involving data gathering, analysis, and numerical assessment. The study used panel data analysis to investigate the correlation between board of director committees and bank performance, using secondary data obtained from the Central Bank of Jordan and bank reports. The sample consist of all Jordanian domestic working banks in Jordan which are 15 banks, during the period 2016 to 2023.

ROA is a financial performance metric that indicates how effectively a company's management is utilizing its assets to generate revenue. It measures the profitability of a company relative to its total assets and is a good indicator of management's competence in generating revenue from assets and managing them effectively to create income. According to Sarkar and Rakshit (2023), ROA is an important measure of financial performance and management competence. The formula of ROA as in Equation (1).

$$ROA = \frac{Net\ Income}{Average\ Total\ Assets} \text{....(1).}$$

ROE is a financial ratio that measures a bank's profitability and managerial efficiency by comparing its income to the shareholder's equity. A higher ROE indicates better financial performance. However, ROE may not always be the most appropriate measure of bank performance because it does not consider the more risk associated with greater leverage and the influence of constraints on leverage. Additionally, banks with lower debt or higher equity may have a higher ROA but lower ROE (Sarkar and Rakshit, 2023). Equation (2) illustrates the formula for ROE.

$$ROE = \frac{Net\ Income}{Shareholders\ equity} \text{....(2).}$$

The selection of control variables in bank performance research is essential for isolating the effects of independent variables and ensuring valid findings. Key control variables include market capitalization, which influences governance structures and operational complexities; GDP growth rate, which affects demand for banking services; and inflation rate, which impacts purchasing power and loan repayment. By controlling for these factors, researchers can more accurately assess the relationship between governance mechanisms and bank performance, leading to clearer insights into how internal governance structures, such as board committees, contribute to banks' financial success. This study selected bank size, inflation rate and GDP as the control variables. The size of a bank can have an impact on its performance, which can be measured by total assets or market capitalization. Larger banks may have different governance structures and operational complexities that can impact their performance (Aldegis et al., 2023). Inflation rates can impact the purchasing power of consumers and the cost of goods and services. High inflation can erode the value of money and affect loan repayment rates, asset values, and overall economic stability. These factors can, in turn, influence bank performance (Sarkar and Rakshit, 2023). The overall economic growth, as measured by GDP, can affect the demand for loans, investment opportunities, and the overall health of the banking sector. A strong GDP growth usually leads to increased business activities, higher loan demand, and improved financial performance for banks (Rahman et al., 2023).

Bank performance is to be determined in this study by an empirical research model adopted to test the hypotheses. The model is utilized in empirical research to examine the correlation between the board committees (NRC and AC) and the financial performance of banks in Jordan. Based on the yearly reports of Jordan banks. The impact of board committees, including the audit committee, and nomination and remuneration committee, on the performance of banks. Equation (3) illustrates the econometric model used in this study.

$$B.P = \beta 0 + \beta 1\, SIZE + \beta 2\, INFLATION + \beta 3\, GDP + \beta 4\, NRCGDR + \beta 5\, lnNRCS + \beta 6\, ACGDR + \beta 6\, lnACS + \mathcal{E}it \ldots \quad (3).$$

Where, B.P: bank performance, SIZE: bank size, INFLATION: annual inflation rate, GDP: annual GDP growth, NRCGDR: number of female members in nomination and remuneration Committee, lnNRCS: log of number of members in nomination and remuneration Committee, ACGDR: number of female members in audit committee, lnACS: log of number of members in audit committee.

Table 1: Measurement of variables

Variables Name	Symbol	Measurement
Dependent variables		
Return on equity	ROE	Net income divided by total equity
Return on assets	ROA	Net income divided by total assets
Independent variables		
Nomination and Remuneration committee size	lnNRCS	Natural logarithm of the number of members in nomination and remuneration Committee
Nomination and Remuneration committee gender diversity	NRCGDR	Number of female members in nomination and remuneration Committee over total committee
Audit committee size	lnACS	Natural logarithm of the number of members in audit committee
Audit committee gender diversity	ACGDR	Number of female members in audit committee over total committee
Control variables		
Bank Size	SIZE	A bank total capital divided by market total capital
Gross domestic product growth	GDP	Gross domestic product annual growth rate
Inflation rate	INFLATION	Annual inflation rate

Findings

The descriptive statistical findings are presented in Table 1. The table shows the two financial performance measures (ROA, ROE), independent variables (AC gender diversity, AC size, NRC size, NRC gender diversity), control variables (bank size, GDP, and inflation). Descriptive analyses revealed features and characteristics, outliers were identified through descriptive analyses, where observations significantly deviating from the overall data distribution were flagged. Specifically, among the initial 128 observations, 0 outliers were detected and panel variables strongly balanced.

Table 2: Descriptive Analysis Results

Variable	Obs	Mean	Std. Dev.	Min	Max	VIF
ROA	128	1.035	.455	-.1	1.86	
ROE	128	8.528	3.934	-.25	18.65	
lnACS	128	1.317	.303	.693	2.197	1.38
ACGDR	128	.438	.649	0	5	1.29
lnNRCS	128	1.311	.271	.693	2.079	1.2
NRCGDR	128	.328	.471	0	1	1.19
SIZE	128	1.522	2.028	.015	8.09	1.11
GDP	128	1.731	1.271	-1.55	2.7	1.1
INFLATION	128	1.731	2.034	-.877	4.5	1.09

The potential multicollinearity issues were evaluated alongside the assessment of variable linearity, as presented in Table 3. The correlation coefficients, which range from -0.3108 to 0.376 when excluding the dependent variables (ROA and ROE), indicate that there are no significant multicollinearity concerns among the independent variables. This suggests that future estimations involving these variables can be considered reliable. Fixed effect model cluster(id) analysis was conducted to examine econometric models. Variance Inflation Factors (VIFs) analysis, shown in Table 2, confirmed no multicollinearity issues (all variables are below the threshold value of 10). Diagnostic tests for heteroskedasticity and serial correlation were performed using Modified Wald and Wooldridge Test with a 0.5 threshold.

Table 3: Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) ROA	1.000								
(2) ROE	0.796	1.000							
(3) ACGDR	0.010	0.104	1.000						
(4) NCRGDR	-0.035	0.043	0.376	1.000					
(5) lnACS	-0.090	-0.118	0.232	0.014	1.000				
(6) lnNCRS	-0.114	-0.213	-0.030	-0.013	0.381	1.000			
(7) SIZE	0.044	-0.001	-0.292	-0.106	-0.001	0.018	1.000		
(8) GDP	0.312	0.302	-0.062	-0.085	0.026	0.025	0.006	1.000	
(9) INFLATION	0.013	0.008	0.010	0.084	0.112	0.043	0.011	0.270	1.000

Discussion

Two models were run to test the hypotheses and robustness of this study. Model (1) examined the relationship between the independent variables (audit committee gender diversity, audit committee size, nomination and remuneration committee size, nomination and remuneration committee gender diversity), ROA, and control variables. Model (2) examined the relationship between the independent variables, ROE, and control variables. The findings from the panel regression analysis presented in Table 4 provide valuable insights into the impact of various board committee characteristics on the financial performance of banks, specifically through the lenses of ROA and ROE. The use of the logarithm in the context of committee sizes serves to normalize the data, allowing for a more accurate interpretation of the relationship by mitigating the effects of skewness in the distribution of committee sizes.

The relationships between each independent variable and ROA reveal important insights into the governance structures of banks. Firstly, the presence of gender diversity within the audit committee has a positive impact on ROA, with a coefficient of 0.0435. This suggests that an increase in the number of female members in the audit committee may lead to improved financial performance; however, this relationship is not statistically significant, indicating that while there is a trend towards better performance with increased diversity, for instance, research by Arnaboldi et al. (2020) concluded that there is no substantial link between the proportion of women on corporate boards, including audit committees, and organizational financial performance, specifically in terms of ROA and ROE. In contrast, the size of the AC shows a significant positive relationship with ROA, with a coefficient of 0.7310. This indicates that larger audit committees are associated with better financial performance, suggesting that having more members enhances the effectiveness of oversight and governance, leading to more comprehensive discussions and improved decision-making processes. This result consistent with Tham (2024), who suggests that larger audit committees can introduce a wider array of expertise and perspectives into the decision-making process, which fosters more robust discussions and leads to better-informed decisions. Moreover, Chakravarty and Hegde (2022) emphasize that a larger audit committee reflects a stronger commitment to governance and oversight functions, signaling to stakeholders and investors the bank's dedication to transparency and accountability. Additionally, the size of the NRC also exhibits a positive significant relationship with ROA, with coefficient 0.4402. Studies have shown that a larger NRC can facilitate more thorough evaluations of executive performance and compensation packages, leading to better alignment with the bank's strategic objectives and shareholder interests. This aligns with the findings of Akram and Abrar (2022). However, the study presents an unexpected finding regarding the gender diversity of the nomination and remuneration committee, which shows a negative relationship with ROA, indicated by a coefficient of -0.3108. This suggests that an increase in gender diversity within this committee could be associated with lower financial performance, warranting further investigation into the underlying factors contributing to this outcome, as in their study, Campbell and Mínguez-Vera (2008) posited that more gender diversity could result in a wider range of perspectives and enhanced analytical thinking, thereby complicating and slowing down the decision-making process.

The size of the AC shows a significant positive relationship with ROE, with a coefficient of 7.1375, which is statistically significant at the 99% level. This indicates that as the size of the audit committee increases, the bank's ROE tends to improve, suggesting that larger committees may enhance oversight and decision-making processes, ultimately leading to better financial performance, this consistent with hypothesized studies, which supports this relationship, indicating that larger audit committees contribute positively to ROE by ensuring more effective monitoring of financial reporting and risk management practices. In contrast, the size of the NRC exhibits a positive correlation with ROE, indicated by a coefficient of 2.4696, as it statistically significant for ROA it's not significant with ROE, the significance of NRC size with ROA but not with ROE may indicate that the operational and strategic decisions influenced by the NRC have a more immediate impact on asset management and efficiency, while equity returns are influenced by a broader range of factors beyond committee size. Furthermore, the gender diversity within the NRC, same as it shows negative and significant relationship with ROA shows a negative and statistically significant relationship with ROE, with a coefficient of -2.877, significant at the 95% level.

Table 4: Panel Regression Results

Variables	**Model 1 (ROA)**	**Model 2 (ROE)**
Audit committee gender diversity	0.0435	0.4461
(ACGDR)	(0.0645)	(0.5087)
audit committee size	0.7310**	7.1375**
(lnACS)	(0.2936)	(2.9095)
Nomination and remuneration	0.4402*	2.4696
committee size (lnNRCS)	(0.2491)	(2.1971)
Nomination and remuneration	-0.3108**	-2.877*
committee gender diversity	(-0.1225)	(1.4211)
(NRCGDR)		
Bank Size	-0.4271***	-1.4976
	(0.1324)	(1.1881)
GDP growth rate	0.1089***	0.9018***
	(0.0265)	(0.1924)
Inflation rate	-0.0193	-0.1987
	(0.0129)	(0.1294)
Observation	128	128
Wald X^2_{10}/ F value	0.0004***	0.0003***
R-Square	0.3744	0.3549
Breusch-Pagan LM	0.0000	0.0000
Hausman Test	0.0095	0.0000
Wald Test	0.0000	0.0000
Wooldridge Test	0.0000	0.0000
Adopted Model	FE Cluster (id)	FE Cluster (id)

Note: *, **, *** indicates the statistically significance level at 90%, 95% and 99%, respectively. The standard errors of the coefficients are stated in the brackets The p-value of the Breusch-Pagan LM Test, R-Square, Wald Test, Wooldrige Test, and Hausman Test results are reported.

Conclusion

Theoretical implications

Theoretical contributions of this study lie in advancing understanding of factors influencing bank performance in Jordan. By exploring the impact of economic volatility, political uncertainties, and regulatory constraints on banks, this research aims to provide insights into enhancing resilience, improving risk management practices, fostering innovation, and promoting sustainable growth within the banking sector. This theoretical framework not only contributes to the academic discourse on banking performance in challenging environments but also offers practical implications for policymakers, regulators, and banking institutions in Jordan seeking to strengthen the sector's stability and long-term viability. Moreover, the study advocates for fostering innovation within the banking sector as a means to adapt to these challenges. By promoting innovative practices, banks can not only improve their service offerings but also enhance their competitive edge in a dynamic market. This focus on innovation is crucial for sustainable growth, as it enables banks to respond effectively to changing customer needs and market conditions.

Practical implications

Board of director committees, such as the audit and nomination committees, are pivotal in shaping the performance of banks. The audit committee ensures financial transparency and accountability by overseeing reporting processes, internal controls, and audits, thereby enhancing stability and investor confidence. It plays a critical role in risk management by identifying and managing financial risks early, preventing crises and safeguarding the institution's assets. Nomination committees contribute to effective governance by selecting diverse and qualified candidates for board and executive roles, fostering robust decision-making and strategic planning. Both committees uphold ethical standards and corporate culture, detecting misconduct and ensuring compliance with regulations, which builds stakeholder confidence and maintains market trustworthiness. Policymakers' support through regulatory frameworks strengthens these committees, promoting a transparent and resilient banking sector that benefits companies, stakeholders, and society as a whole. Moreover, the audit committee is instrumental in risk management. It identifies and assesses financial risks early in the process, allowing the bank to implement preventive measures before potential crises arise. This proactive approach is critical in safeguarding the institution's assets and ensuring its long-term viability. By effectively managing risks, the audit committee helps to create a more resilient banking environment, which is particularly important in times of economic uncertainty. On the other hand, nomination committees are pivotal in fostering effective governance by ensuring that the board is composed of diverse and qualified individuals. By selecting candidates who bring a range of perspectives and expertise, nomination committees enhance the decision-making process and strategic planning capabilities of the board. This diversity not only enriches discussions but also leads to more innovative solutions and better alignment with the bank's goals and objectives.

Limitations and future study

Limitations of this study include potential challenges in generalizing findings across different banking contexts, as governance practices and regulatory environments can vary significantly between countries and institutions. Additionally, while audit and nomination committees are essential, their effectiveness may vary based on the composition and dynamics of individual committees, which could impact their ability to achieve intended outcomes consistently. Moreover, this study primarily focuses on the contributions of audit and nomination committees to bank performance, leaving out other governance mechanisms or external factors that may also influence outcomes.

Future research could explore several avenues to address these limitations and expand understanding. Firstly, comparative studies across different regulatory frameworks and banking sectors could provide insights into how governance practices vary and their impact on performance. Secondly, longitudinal studies could track the evolution and effectiveness of audit and nomination committees over time, examining changes in governance practices and their effects on financial stability and stakeholder confidence. Thirdly, qualitative research could delve deeper into the dynamics within audit and nomination committees, exploring factors such as board composition, leadership styles, and decision-making processes that contribute to their effectiveness. Finally, exploring the intersectionality of governance mechanisms with emerging issues such as digital transformation and sustainability could provide valuable insights into adapting governance practices to contemporary challenges. By addressing these avenues, future research can contribute to a more comprehensive understanding of how governance mechanisms, including audit and nomination committees, influence bank performance in diverse contexts, thereby informing policymakers and stakeholders on effective strategies for enhancing financial stability and regulatory compliance in the banking sector.

References

Ahmad Mohammad Aldegis, Yuvaraj Ganesan, Osamah Jamal Alorayni, & Abdullah Mohammed Sadaa. (2023). NOMINATION AND REMUNERATION COMMITTEE AND FIRM PERFORMANCE: EVIDENCE FROM JORDAN. *International Journal of Business and Society*, *24*(3), 1099–1117. https://doi.org/10.33736/ijbs.6404.2023

Akram, F., & Abrar Ul Haq, M. (2022). Integrating agency and resource dependence theories to examine the impact of corporate governance and innovation on firm performance. *Cogent Business & Management*, *9*(1), 2152538. https://doi.org/10.1080/23311975.2022.2152538

Al Amosh, H., Khatib, S. F. A., & Ananzeh, H. (2023). Environmental, social and governance impact on financial performance: evidence from the Levant countries. *Corporate Governance (Bingley)*, *23*(3), 493–513. https://doi.org/10.1108/CG-03-2022-0105

Arnaboldi, F., Casu, B., Kalotychou, E., & Sarkisyan, A. (2020). The performance effects of board heterogeneity: what works for EU banks? *The European Journal of Finance*, *26*(10), 897–924. https://doi.org/10.1080/1351847X.2018.1479719

Biswas, P. K., Chapple, L., Roberts, H., & Stainback, K. (2023). Board gender diversity and women in senior management. *Journal of Business Ethics*, *182*(1), 177–198. https://doi.org/10.1007/s10551-021-04979-x

Campbell, K., & Mínguez-Vera, A. (2008). Gender Diversity in the Boardroom and Firm Financial Performance. *Journal of Business Ethics*, *83*(3), 435–451. http://www.jstor.org/stable/25482388

central bank of Jordan. (2023). *central bank of Jordan report 2023*.

Chakravarty, S., & Hegde, P. (2022). Firm size and the effectiveness of busy boards in an emerging economy. *Global Finance Journal*, *53*, 100718. https://doi.org/10.1016/j.gfj.2022.100718

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *The Journal of Law and Economics*, *26*(2), 301–325. https://doi.org/http://www.jstor.org/stable/725104

Ghafran, C., & O'Sullivan, N. (2013). The governance role of audit committees: Reviewing a decade of evidence. *International Journal of Management Reviews*, *15*(4), 381–407. https://doi.org/https://doi.org/10.1111/j.1468-2370.2012.00347.x

Haghighi, H., & Takian, A. (2024). Institutionalization for good governance to reach sustainable health development: a framework analysis. In *Globalization and Health* (Vol. 20, Issue 1). BioMed Central Ltd. https://doi.org/10.1186/s12992-023-01009-5

IMF Country Report No. 23/140. (2023). *International Monetary Fund*.

Ishola Ibrahim, S., & Adabenege Yahaya, O. (2023). WHICH NOMINATION COMMITTEE ATTRIBUTES MATTER IN IMPROVING FINANCIAL PERFORMANCE? *Article in Journal of Business Management and Economic Research*, *2023*(09). https://doi.org/10.29226/TR1001.2023.17x

Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs and ownership structure. In *Corporate governance* (pp. 77–132). Gower.

Keasey, K., Thompson, S., & Wright, M. (1998). Corporate governance, economic, management, and financial issues. *Managerial Auditing Journal*, *13*(6), 390–391. https://doi.org/https://doi.org/10.1108/maj.1998.13.6.390.2

Norman, C. S., Rose, J. M., & Suh, I. S. (2011). The effects of disclosure type and audit committee expertise on chief audit executives' tolerance for financial misstatements. *Accounting, Organizations and Society*, *36*(2), 102–108. https://doi.org/10.1016/j.aos.2011.02.004

Oliveira, F., Kakabadse, N., & Khan, N. (2022). Board engagement with digital technologies: A resource dependence framework. *Journal of Business Research*, *139*, 804–818. https://doi.org/10.1016/j.jbusres.2021.10.010

Rahman, M. M., Rahman, M. M., Rahman, M., & Masud, M. A. K. (2023). The impact of trade openness on the cost of financial intermediation and bank performance: evidence from BRICS countries. *International Journal of Emerging Markets*, *18*(10), 3550–3587. https://doi.org/10.1108/IJOEM-04-2021-0498

Sarkar, S., & Rakshit, D. (2023). Factors influencing the performance of commercial banks: A dynamic panel study on India. *FIIB Business Review*, *12*(1), 85–99. https://doi.org/10.1177/23197145211021564

Sharma, D. S., Sharma, V. D., Tanyi, P. N., & Cheng, X. (2020). Should audit committee directors serve on multiple audit committees? Evidence from cost of equity capital. *Auditing: A Journal of Practice & Theory*, *39*(2), 185–205. https://doi.org/10.2308/ajpt-17-117

Singh, M. P. (2023). FINANCIAL DISTRESS RISK AND STOCK RETURN: A REVIEW. *Economics and Commerce*, *14*(01). https://doi.org/https://doi.org/10.1016/j.iref.2024.01.054

Tham, Y. H. (2024). A global review of the literature on and proxies of busy boards and audit committees. *Asian Review of Accounting*, *32*(3), 463–490. https://doi.org/10.1108/ARA-12-2022-0301

Unite, A. A., Sullivan, M. J., & Shi, A. A. (2019). Board diversity and performance of philippine firms: do women matter? *International Advances in Economic Research*, *25*, 65–78. https://doi.org/10.1007/s11294-018-09718-z