“The impact of foreign ownership on corporate governance: evidence from an emerging market”

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THE IMPACT OF FOREIGN OWNERSHIP ON CORPORATE GOVERNANCE: EVIDENCE FROM AN EMERGING MARKET

Abstract

This research explores the influence of foreign ownership on non-financial public shareholding firms in the Amman Stock Exchange (ASE). The study involved an investigation into the connection between non-Jordanian ownership and the company growth opportunity, stock liquidity, leverage, dividend policy and business output. The results highlight that foreign ownership can provide improved corporate governance practices by playing a decisive role in increasing the growth opportunity and enhancing the firms' market valuation, as measured by Tobin's Q. Moreover, the findings indicate that companies with foreign board membership have better operating performance and higher firm value. The rewards were reaped by foreign investors based on their superior monitoring ability, which affects the decisions made and actions taken by management.

Keywords foreign ownership, corporate governance, firm value, market efficiency, emerging markets, Jordan

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INTRODUCTION

Foreign ownership is one of the vital issues to be investigated extensively in accounting and finance literature. Several studies suggest that foreign ownership is critical in enhancing and developing corporate governance due to the ability of foreign shareholders to monitor managerial actions as part of an internal corporate governance mechanism (Douma et al., 2006; Rhee & Wang, 2009, among others).

However, there are mixed results regarding the role of foreign ownership in emerging markets. On the one hand, Li et al. (2011) highlight that the emerging stock markets can benefit from the monitoring role played by foreign investors, while Baek et al. (2004) demonstrate that businesses with a greater level of foreign ownership suffer less and observe a lower fall rate in the value of their shares. Conversely, Bekaert and Harvey (2000) suggest that granting foreign investors access to the market may lead to the increased valuation of local companies, which introduce higher stock return volatility. Phung and Vy Le (2013) reveal that a monitoring role is not played if the degree of foreign ownership is not sufficiently concentrated.

Thus, this study's primary goal is to explore the financial aspect of corporate governance by examining whether the existence of foreign ownership in publicly-trading non-financial firms in the Amman Stock Exchange (ASE) can provide better corporate governance at the firm level. Further, the potential impact of foreign membership of the board is also explored. The analysis is performed by exploring the na-

ture of the relationship between foreign ownership and different indicators of the firm characteristics related to good governance practice. Moreover, the potential impact of the monitoring role will be addressed based on the same independent variables of the foreign ownership model.

This study aims to achieve two objectives. First, it will test empirically whether foreign ownership leads to attaining better corporate governance. It will achieve this by investigating the relationship between foreign ownership and the characteristics of a well-governed firm. This objective involves exploring separately the relationship between foreign ownership as an independent variable and five dependent variables. The dependent variables are turnover ratio as a measure of the stock market liquidity, Tobin's Q, which measures firm value, leverage ratio as a measure of the availability of external finance, dividend yield as a measure of dividend payment, and return on assets to assess a firm's performance. Second, the study will test empirically the possibility of providing a monitoring role to foreign investors as board members. As with the first objective, this will be achieved by replacing foreign ownership with foreign board membership as a dependent dummy variable. Thus, the primary research question of the study is to assess the impact of the foreign investment and foreign board membership on various dimensions of company performance.

This paper is structured as follows: section one outlines the literature review. Section two presents the methodology of the study, which includes variable measurement and the hypotheses. Section three presents and discusses the findings, and final section presents the conclusion and direction for future studies.

1. LITERATURE REVIEW

Several studies attempt to examine the potential link between the existence of foreign ownership and firm characteristics, which are proven to relate better to corporate governance quality. Kang and Stulz (1997) explore the impact of the existence of foreign ownership in Japanese firms between 1975 and 1991. The models for this study were constructed based on the following characteristics: return on assets; book-to-market ratio; market value; current ratio; beta; excess return; leverage; and residual variance. Using the multiple regressions method, Kang and Stulz's (1997) primary findings indicate that firms with foreign ownership perform better at the operational level, and larger in size and have lower leverage. Dahlquist and Robertson (2001) have expanded on Kang and Stulz (1997) by investigating the potential impact of foreign ownership on Swedish firms for the period 1993–1997. They added dividend yield as a measure of dividend payment to the same firm-specific attributes explored in Kang and Stulz (1997). This study's results highlight that foreign ownership relates positively to both firm size, as measured by market capitalization, and a significant amount of cash, as measured by the current ratio. Conversely, the study outlines the negative impact of foreign ownership on the amount of dividend payment, measured by dividend yield. Chiang and Kuo (2006) characterized foreign ownership on the Taiwan stock market by utilizing the same firm characteristics used in both earlier studies. Their results are consistent with previous studies in demonstrating the positive association between foreign ownership and firm performance, and the negative association with firm leverage.

The empirical evidence for the impact of foreign ownership and the stock market liquidity yield mixed results. On a positive note, a study conducted by Bekaert et al. (2003) highlights the positive effect of foreign ownership on stock market liquidity. The rationale for this argument assumes that, in emerging markets, the existence of foreign ownership can reduce the level of information asymmetry and increase the trading activity and quality of information disclosure. Conversely, other studies challenge this positive argument and claim that foreign ownership impacts negatively on stock market liquidity for two essential reasons. First, the foreign investors apply a buy and hold strategy that reduces the amount of trading frequency and impacts negatively on stock market liquidity. Second, foreign ownership induces

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a higher level of information asymmetry between foreign and local investors, which implies an adverse effect on stock market liquidity (Wang, 2007; Rhee & Wang, 2009; Umutlu et al., 2013; Vo, 2016). Furthermore, from a legal perspective, in an attempt to explain the rationale of the counter view, Lesmond (2005) and Amihud (2002) argue that emerging markets with weak investor's protection law, such as Jordan, have higher liquidity costs and lower stock market liquidity compared with developed markets.

The relationship between foreign board membership and firm performance is also discussed in the literature. According to previous research, there are two different arguments regarding the impact of foreign ownership on firm performance. Oxelheim and Randøy (2002) analyze the effect of the presence of outside (Anglo-American) board members on firm performance using firm value as a proxy for firm value. Their results indicate that firms with foreign board members are valued significantly higher than other companies. Moreover, further investigation within the same study demonstrates that Tobin's Q is considerably higher for older firms and those with a higher level of market capitalization. Meanwhile, Wei et al. (2005) analyze the link between three types of ownership structure (state, institutional and foreign) with the firm value measured using Tobin's Q and rely on a large sample of firms trading in China's stock exchanges. The purpose of this was to explore how the conflict of interest across different types of equity owners affects the firm value. They found that foreign ownership had a significantly positive effect on firm value. The findings suggest that shares owned by foreign investor create value through their monitoring role.

Douma et al. (2006) address the influence of foreign investment as a different approach. They differentiate between the effects of the foreign institutional and foreign corporate shareholders on the performance of developing equity market firms. The results reveal that foreign firms perform better than domestic companies concerning return on assets and Tobin's Q ratios. They also demonstrate that foreign shareholders monitor the firm's internal corporate governance system. Conversely, based on Vietnamese data, Phung and Vy Le (2013) find that foreign ownership impacts negatively on firm performance. Such results contradict the trend of the clear majority of other studies; their findings show that for developing markets, such as Vietnam in this case, foreign ownership is not a significant factor in the monitoring of corporate governance. This is especially the case when it is diluted. However, Agarwal et al. (2009) reveal that foreign investors perform less well than domestic investors due to their aggressive approach to trading. This study is based on the Indonesian market. While, Ferreira and Matos (2008) and Aggarwal et al. (2011) found that foreign institutional participation enhances Tobin's Q, firm valuation and corporate governance practices in domestic firms; however, their date was not based on emerging markets. With regard to impact, based on data gathered from emerging markets, Richards (2005) demonstrates the greater impact of foreign investors on market returns, compared with domestic investors. Likewise, using data gathered from 30 countries between 2000 and 2010, Bena et al.'s (2017) study finds that institutional foreign investors have a long-term version and motivate innovation.

The leverage ratio is used in various studies as an indicator for external finance to explore the type of relationship that may exist between foreign ownership and the availability of external funding. The general perception is that foreign ownership impacts negatively on leverage. This argument is drawn from the preference of foreign investors to avoid any possibility of financial distress, as foreign ownership prefers firms with low leverage (Chiang & Kuo, 2006). However, Phung and Vy Le (2013) present a counterpoint view, whereby foreign investors suffer from asymmetric information and tend to increase debt to mitigate the problem of agency. In light of the counter-argument, we claim that firms with the greatest need for external finance must adopt better corporate governance mechanisms in the future (LaPorta et al., 1998). Thus, linking this factor with foreign ownership and foreign board membership will be significant and positive, as the study's data are based on the Jordanian market, which is a developing country.

The general trend observed in recent literature supports the contrary effect argument of for-

eign ownership on the amount of dividend payment. Dahlquist and Robertson (2001) indicate that foreign investors prefer to invest in firms that distribute a lower amount of earnings. The principal justification for this adverse relation is based on the tax advantage, which foreign investors may face as a result of the tradeoff decision between dividend and capital gain; in particular, foreign investors use a long-term holding strategy (Chiang & Kuo, 2006).

Based on the general arguments that firm size is a proxy for firm recognition and the level of information asymmetries, numerous studies indicate a strong positive relationship between foreign ownership and firm size (for example, Dahlquist & Robertson, 2001).

Oxelheim and Randøy (2002) reveal a positive relationship between foreign ownership and firm age; they argue that the impact of foreign ownership monitoring is higher in older firms than those established more recently. The reason for this is that old firms have more free cash flow; therefore, they require greater levels of monitoring and control. Thus, the adoption of good corporate governance is essential in older firms.

Building on the earlier discussion of previous studies and since Jordan was ranked 118th out of 190 countries according to ease of doing business (World Bank, 2017), Jordan had been at this rank for some time (World Bank, 2013–2017). According to this position, about two-thirds of the world scores a higher ranking than Jordan concerning 'ease of doing business'. Consequently, Jordan is ranked relatively low regarding investor protection compared with most of the world.

In countries with weak investor's protection law, such as Jordan, the importance of adopting sound corporate governance practice is more relevant (LaPorta et al., 1998). Thus, the significance of this study arises from identifying the potential benefit of the monitoring role that foreign investors may provide. Furthermore, addressing the impact of foreign ownership on the characteristics of a well-governed firm may enhance the quality of corporate governance practice. This study expects to establish a base for further studies in Jordan and the wider region.

The London initiatives (2019), which is an international gathering of politicians, economists, and investors took place in London, was held on February 28, 2019 to establish a relationship between Jordan and the international community. Here, most of the time was devoted to promoting Jordan for foreign investment. In addition to the literature review and Jordan's low ease of doing business ranking, this event demonstrates the value relevance of conducting this study. The outcomes are expected to contribute to the knowledge, as potential investors will have a better understanding of the potential outcomes of the investment. Meanwhile, it expects to have an impact on practice based on the empirical findings of the study. Such results are important for both Jordan and the international community.

2. METHODOLOGY OF THE STUDY

Based on the earlier discussion in section 1, this section discusses the study's methodology. The study will adopt quantitative analysis tools based on positive accounting theory. The capital market is assumed to be efficient in the semi-strong form, where share prices are assumed to be unbiased indicator of the company performance. The methodology will include various modelling to help test the hypotheses of the study, which are informed by the literature review.

The subsections of the methodology section include variable measurement, models of study, study hypotheses, population and sample of the study, and period of the study.

2.1. Variable measurement

Following the discussion in the literature review section, this subsection will present the variables of the study divided into dependent, independent and control variables along with an explanation of the proxy of each variable.

2.1.1. Dependent variables

Following Kang and Stulz (1997), and Dahlquist and Robertson (2001), the dependent variables of this study comprise five firm characteristics.

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First: Stock market liquidity; turnover ratio (TR)

Different measures can be used to estimate the stock liquidity; the common proxy is the turnover ratio (*TR*). This is a volume-based liquidity estimator that reflects trading frequency in the stock market (Lesmond, 2005, Chiang & Kuo, 2006, Dahlquist & Robertson, 2001, among others).

$$TR = Average\left(\frac{V}{N}\right), \quad (1)$$

where *TR* – turnover ratio, *V* – daily trading volume, *N* – number of outstanding shares.

Second: Firm value; Tobin's Q ratio (*TQ*)

Several studies used Tobin's Q (*TQ*) ratio as a proxy measure for firm market valuation. Based on Wei et al. (2005), Oxelheim and Randøy (2002) and Cho (1998), we will use *TQ* ratio as a proxy for the firm value based on the following formula:

$$TQ = \frac{(MVE + TL)}{TA}, \quad (2)$$

where *TQ* – Tobin's Q ratio, *MVE* – market value of equity, *TL* – total liability, *TA* – total asset.

Third: External financing; leverage ratio (*LEV*)

Following Chiang and Kuo (2006), leverage ratio (*LEV*) will be used as a proxy to indicate the long-term financial distress and measures the ability of the firms to meet their long-term financial obligations. *LEV* will be calculated using the following formula:

$$LEV = \frac{TL}{TA}, \quad (3)$$

where *LEV* – leverage ratio, *TL* – total liability, *TA* – total asset.

Fourth: Firm performance; return on assets (*ROA*)

Return on assets is one of the fundamental performance measures that reflect the firm's operating performance (Chiang & Kuo, 2006). Return on assets is defined as net income over total assets (Klapper & Love, 2004) as follows:

$$ROA = \frac{NI}{TA}, \quad (4)$$

where *ROA* – return on asset, *NI* – net income, *TA* – total asset.

Fifth: Dividend payment

Dividend yield is defined as the value of the yearly dividend payment relative to the firm's market value (Chiang & Kuo, 2006; Dahlquist & Robertson, 2001) as follows:

$$DY = \frac{DIV}{MV}, \quad (5)$$

where *DY* – dividend yield, *DIV* – yearly dividend payment, *MV* – market value of firm.

2.1.2. *Independent variables*

A. We measure foreign ownership in our study as the percentage of common shares owned by non-Jordanian investors (Arab and foreign).

B. Foreign board member: This is a dummy variable equal to one if the non-Jordanian investors (Arab and foreign) are serving on the board of directors, and zero otherwise.

2.1.3. *Control variables*

To enhance the model specification and capture additional relevant information in line with the discussion in section 2, two control variables are added, namely firm size and firm age. Each variable is measured and discussed in detail.

Firm size

Firm size is considered a control variable measured according to the total assets; the firm size equals the natural log of the book value of total assets. The inclusion of this variable is anticipated to enhance the model specification and mitigates the impact of heteroscedasticity (Chiang & Kuo, 2006). Further, including this variable helps reduce bias as it is expected that larger firms are better able to cope with sudden liquidity shortfalls and hope to have better access for investment in capital markets. Moreover, more prominent companies have enhanced resources to diversify risk (Demstez & Strahan, 1997). Thus, to enhance the model specification and prevent results being driven by size, firm size is considered a control variable within the model.

Firm age

The second control variable is firm age, which is based on the year of establishment. The rationale for its inclusion is largely the same as for firm size. Following Oxelheim and Randøy (2002), we calculated firm age by counting the number of years since establishment, then taking its natural logarithm.

2.2. Models of the study

This study will use the two models detailed as follows:

A. The first model examines the potential impact of foreign ownership on the firm characteristics, as addressed in subsection 3.1:

$$Y_{it} = \beta_0 + \beta_1 \cdot FO_{it} + \\ + \beta_2 \cdot Size_{it} + \beta_3 \cdot Age_{it} + \varepsilon_{it}, \quad (6)$$

where Y_{it} is the dependent variable and stand as one of the firm characteristics, as outlined in equations 1-5; *FO* – foreign ownership; *Size* – firm size; *Age* – firm age; β_0 – intercept; β_1, β_2 and β_3 – coefficients of the independent variables, ε – error term, *i* – firm, *t* – number of years.

B. The second model tests the potential impact of foreign board members by replacing it with the foreign ownership in equation 6 to generate equation 7 as follows (all other details remain the same):

$$Y_{it} = \beta_0 + \beta_1 \cdot FBM + \\ + \beta_2 \cdot Size_{it} + \beta_3 \cdot Age_{it} + \varepsilon_{it}, \quad (7)$$

where *FBM* – foreign board member, all other details are similar to equation 6.

2.3. Study hypotheses

Section 1 presents studies that are relevant to the current research; the overall discussion in the literature review section provides a rationale for the study hypotheses. Following the rationale discussed in section 2, the following hypotheses are formulated in the alternative form *Ha*:

2.3.1. First model, equation 6

Hypotheses from 1 to 5 address the potential impact of foreign ownership on various ratios:

H1: *There is a positive relationship between foreign ownership and Tobin's Q.*

H2: *There is a negative relationship between foreign ownership and leverage ratio.*

H3: *There is a positive relationship between foreign ownership and return on assets.*

H4: *There is a negative relationship between foreign ownership and turnover ratio.*

H5: *There is a negative relationship between foreign ownership and dividend yield.*

2.3.2. Second model, equation 7

Hypotheses from 1 to 5 address the potential impact of foreign board members on various ratios:

H1: *There is a positive relationship between foreign board members and Tobin's Q.*

H2: *There is a negative relationship between foreign board members and leverage ratio.*

H3: *There is a positive relationship between foreign board members and return on assets.*

H4: *There is a negative relationship between foreign board members and turnover ratio.*

H5: *There is a negative relationship between foreign board members and dividend yield.*

2.4. Population and sample of the study

The study population consists of non-financial companies (industrial and service) that traded actively in the ASE for the duration of the study period (2000–2008). Firms in the financial and insurance sectors were excluded to maintain harmony. There were 145 non-financial companies listed in the ASE at the end of 2008 (88 from the industry sector, representing 60% of the population, and 56

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from the service sector, representing 40% of the population). This dataset will be the starting point for the study; the study sample comprises the companies that remain once the following criteria are applied:

1. The foreign ownership exists at least for one during the period of the study.

2. The company must have active shares and status as a public shareholder company. Therefore, the company status must not be delisted, suspended or liquidated.

3. The company must be established before 2004; this ensures that sufficient data are available for each company.

4. Each company must have at least five consecutive years of valid data.

All non-financial public shareholder companies that satisfy the above conditions are included in the study sample. 35 companies, 24% of the population, did not meet at least one of the four conditions and are, therefore, excluded from the study. The study sample includes 110 companies, all of which satisfy all conditions generating 982 company-year observations.

The sample distribution represents almost 76% of the population: 46 companies from the service sector (42% from the sample); and 64 companies from the industry sector (58% from the sample). More details about the companies included in the study sample are available upon request.

2.5. Period of the study

The required data for the study will be collected using the Public Shareholder Companies' guide issued by the ASE. The data are publicly available via a database on the official ASE website: www.ase.com.jo. The study data include financial data extracted from financial statements of all non-financial shareholder companies that trade actively in the ASE, providing all the necessary data for calculating the study variables. Other types of data are also included, such as the percentage of shares owned by foreign investors and the board of directors.

The study will cover nine years from 2000 to 2008. This period represents the best available alternative due to the lack of detailed information about ownership structure after 2008. There is no more detailed disclosure of this information after this year by the ASE. Moreover, this period will help avoid the noise of financial crises on the variables of the study and will lead to more reliable results. The Arab Spring that invaded the region shortly after the economic crisis and created unrest in many countries along with the rise of so-called ISIS made extending the period very difficult. Controlling all these external factors was not possible, and the noise they created would lead to an increase in the misspecification of the models. On a positive note, this is the very first study conducted in Jordan; its outcomes will form a base for future studies in Jordan and the wider region.

3. RESULTS AND DISCUSSION

3.1. Introduction

Several statistical tools are used in this study, and the analysis of the results will be presented over various steps. As a start point, descriptive analysis has been used to describe the data required for this research. Then, correlation factors will be presented to explain the association among variables of the study. The regression models are running in non-nested fashion in two forms: ordinarily and fixed effect regression. The least square multiple regressions are used to test the study hypotheses while controlling other characteristics (fir size and firm age). Whereas, the fixed effect regression was used to control the effect of unobserved firm characteristics that may be correlated with the observed independent variables. The hypotheses of the study will be examined based on regression models.

3.2. Descriptive analysis

Panel A presents the statistical summary of study variables. The descriptive indicators are based on mean, median, and standard deviation (SD). Further, we presented minimum and maximum values for each variable to show reader range of

Table 1. Descriptive statistics

Variable	Foreign ownership	Turnover ratio	Tobin's Q ratio	Leverage ratio	Dividend yield	Return on assets	Firm age	Firm size
Panel A: Descriptive statistics for the entire sample								
Mean	0.14	0.008	1.878	0.27	0.022	0.029	2.452	15.254
Median	0.05	0.002	1.07	0.24	0.00	0.03	2.48	16.29
SD	0.205	0.018	0.744	0.211	0.037	0.086	1.066	4.577
Minimum	0.00	0.00	0.01	0.02	0	–0.46	0.69	13.1
Maximum	1.00	0.24	4.56	0.89	0.43	0.43	7.60	20.59
Panel B: Descriptive statistics for firms where foreign ownership (FO) is greater than 5%								
Mean	0.274	0.008	1.30	0.30	0.02	0.03	2.68	16.56
Median	0.189	0.002	1.17	0.28	0	0.03	2.64	16.54
SD	0.227	0.014	0.66	0.20	0.04	0.09	0.86	2.04
Minimum	0.056	0	0.01	0.01	0	–0.46	.69	13.74
Maximum	1	0.134	3.90	0.89	0.43	0.43	4.25	20.31
Panel C: Descriptive statistics for firm where foreign ownership (FO) is lower than 5%								
Mean	0.014	0.008	1.08	0.24	0.02	0.03	2.23	14.02
Median	0.007	0.002	1.01	0.19	0.00	0.02	2.40	15.99
SD	0.016	0.021	0.80	0.22	0.04	0.09	1.19	5.80
Minimum	0.00	0.00	0.01	0.01	0.00	–0.46	0.69	13.10
Maximum	0.05	0.24	4.56	0.88	0.35	0.34	7.60	20.59

Note: This table presents the descriptive statistic for the study variables.

each variable. The results presented in Table 1 reveal that the overall mean of the foreign investors, the percentage of shares owned by foreign investors, has a mean of 14%, while the median fell to only 5% with a standard deviation equal to 20.5%. The median value of foreign ownership (*FO*) is much lower than the mean value due to the high variation of foreign ownership, which varies between 0 and 100%.

The mean (median) of the turnover ratio (*TR*) is 0.8% (0.2%), the value of *TR* varies from zero to 24%, standard deviation of *TR* is equal to 20.5%. Regarding *TQ*, the mean (median) value is 1.878 (1.07). It has a minimum amount of 0.01, a maximum value of 4.56 and SD is equal to 0.744. Comparing *TQ* figures in Jordan with other countries demonstrates that the market valuation of the firms in Jordan is relatively lower than the rest of the world, the global average is 2.09 (1.39), with SD of 1.68 (Klapper & Love, 2004). Klapper and Love (2004) also present figures for other countries: the *TQ* mean (median) value is 1.16 (1.16) in Turkey, 2.82 (1.66) in India, 1.84 (1.45) in Malaysia, 1.90 (1.37) in South Africa, and 3.67 (3.12) in Taiwan.

The descriptive summary highlights the reliance of firms on an external source of funds (liabilities), which are 24% with SD being equal to 21.1%; the *LEV* of listed firms is spread widely from 0% to 89%. Return on assets (*ROA*) is a proxy for firm performance. It has a mean (median) of 2.9% (3%) and a SD of 8.6%. Further, it has a minimum value of –46% and a maximum value of 43%; the high spread between the minimum and the maximum amount is attributed to the high variability in firms' earnings during the study period. Comparing *ROA* in Jordan with other countries reveals again that *ROA* for firms in Jordan is relatively lower than for the rest of the world; the mean (SD) is 5% (8%) in Turkey, 11% (8%) in India, 10% (8%) in Malaysia, 9% (7%) in South Africa, and 10% (7%) in Taiwan, while the overall average for the world is 8% (16%) (Klapper & Love, 2004).

The dividend yield (*DY*) has a mean (median) of 2.2% (0) with SD of 3.7%. Regarding the control variable, firm size has a mean of 15.254 and SD of 4.577, while firm age has a mean of 2.452 and SD of 1.066.

Foreign board member (*FBM*) is measured via a dummy variable; 1 if the foreign investors are serving on the board, and 0 otherwise. Unreported results reveal that slightly more than one-third of the firms' observations in Jordan have FBMs. This dummy variable will be used in the second model to capture the foreign member(s) of the board.

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Table 2. Frequencies of firms of the study according to foreign ownership percentage

Foreign ownership	Observation	Percentage
0%	235	23.93%
1%_ ≤ 5%	271	27.60%
> 5 _≤ 10%	104	10.59%
> 10 _≤ 20%	146	14.87%
> 20 _≤ 40%	111	11.30%
More than 40%	115	11.71%
Total	982	100.00%

Table 2 outlines the number and percentage of firms with foreign ownership; these data were hand collected from annual reports of each firm. Table 2 demonstrates that 23.93% of the study observations have zero foreign ownership. Conversely, 23.01% of the observations have more than 20% of shares owned by foreign investors, of which 11.7% of firms' foreign investors held more than 40%. Therefore, it is clear that the percentage of foreign ownership varies within the study sample.

This table helps identify a proper cutoff point for further analysis. We have noticed that 5% is a suitable cutoff point, since 51.53% of the observations have foreign ownership of less than 5%, while 48.47 % of the observations have more than 5% foreign ownership. These figures indicate that the 5% almost divided the sample into two equal portions, which made it as a proper cutoff point from the practice ASE around the period of the study used to regard the 5% as the cutoff point between significant and insignificant foreign ownership.

Panels A and B of Table 1 present the descriptive measures for the variables of the study after dividing the sample based on foreign ownership percentages; 5% is used as the cutoff, as explained previously. The results demonstrate that leverage and TQ ratios are higher when more foreign ownership is involved, while size tends to be higher when foreign ownership is greater than 5%. The remaining figures are close despite the range between the maximum and minimum values being relatively smaller for companies with more than 5% of foreign ownership. Further, the gap between mean and median declines for firms with foreign ownership levels is higher than 5%.

3.3. Correlation matrix analysis

Table 3 presents the Pearson correlation matrix of the study variables. The results presented in Table 3 demonstrate that foreign ownership has a positive correlation with the firm's value and leverage, whereby foreign ownership correlates positively with *TQ* by 20.1% and with *LEV* by 9% at 1% significance level. Thus, correlation figures support the primary indicators presented in Table 1; thus, we conclude that an increase in foreign ownership is expected to have a positive impact on both firm value and leverage.

The highest positive correlation coefficient is between foreign ownership and foreign board membership (0.706 at 1% significance level), thereby indicating that, in most cases, foreign investors that own common shares in Jordanian companies are also board members. The correlation between foreign ownership and firm size is 19.9%, while the figure is 22.4% between foreign board member-

Table 3. Correlation matrix

Variables	Foreign ownership	Turnover ratio	Tobin's Q ratio	Leverage ratio	Dividend yield	Return on assets	Firm age	Firm size
Foreign ownership	1							
Turnover ratio	–0.059	1						
Tobin's Q ratio	0.201**	0.141**	1					
Leverage ratio	0.090**	0.077*	0.204**	1				
Dividend yield	–0.024	–0.014	0.128**	–0.026	1			
Return on assets	0.003	0.076*	0.323**	–0.123**	0.267**	1		
Firm age	0.151	–0.008	0.335**	0.180**	0.229**	0.100**	1	
Firm size	0.199**	0.062	0.392**	0.341**	0.191**	0.111**	0.618**	1
Foreign board member	0.706**	–0.077*	0.147**	0.127**	–0.043	0.026	0.194**	0.224**

Note: This table presents correlation matrix for the study variables.

ship and firm size, both figures are significant at 1%. This indicates that foreign investors prefer to invest in larger firms, which coincides with the results presented in Panels B and C of Table 1.

3.4. Regression analysis

This subsection presents and discusses the empirical results of the study based on two versions of the regression analysis. The results for both ordinary least square (*OLS*), multiple regression and fixed effect regression are presented in separate tables; separate models will be analyzed for each approach. The results of *OLS* multiple regression are reported in Panel A of Table 4, for the first model as presented in equation 6, and Panel B for the second model, as shown in equation 7. Whereas, Table 5 presents results based on the fixed effect regression model in panels A and B for first and second models, respectively.

Panel A of Table 4 presents the output for regressing foreign ownership as an explanatory variable, along with firm size and firm age as the control variables against the five firm attributes outlined in subsection 3.1. Whereas, Panel B of Table 4 outlines the output for regressing foreign board membership as an explanatory variable along with the same control variables against the same firm attributes in Panel A.

The results presented in Panel A of Table 4 reveal that the foreign ownership coefficient has a negative association with *TR* and *DY* as dependent variables; this relationship has a significance level of 5%. Concerning the association between *TQ* and foreign ownership, the results demonstrate a positive and robust relationship with a significance level equal to 1%. The remaining firm attributes *LEV* and *ROA* yield insignificant results.

In Panel B of Table 4, the results reveal that the foreign board membership coefficient has a negative association with *TR* and *DY* as dependent variables; this relationship is significant and gains strength as the significance level reaches 1%. Regarding the association between *TQ* and *FBM*, the results reveal a positive relationship that is still significant at 10%; the significant level has declined to 10%. Unlike the first model, the *LEV* coefficient becomes positive and significant with *FBM* at 10% significance level. The remaining firms' attribute *ROA* yields insignificant results.

Table 4. Results based on ordinary least square (OLS) regression

Variables	Turnover ratio	Tobin's Q ratio	Leverage ratio	Dividend yield	Return on assets
Panel A: first model: $Y_{it} = \beta_0 + \beta_1 \cdot FO_{it} + \beta_2 \cdot Size_{it} + \beta_3 \cdot Age_{it} + \varepsilon_{it}$,					
Dependent variables					
Constant	0.005**	0.189***	0.033	–0.003	–0.436***
Foreign ownership	–0.006**	0.474***	0.026	–0.012**	–0.014***
Firm size	0.0005***	0.071***	0.017***	0.001**	0.003***
Firm age	–0.001*	0.051*	–0.010	0.006***	0.007***
Adj. R^2	1.23%	17.95%	11.51%	5.68%	1.01%
F-statistics	4.07	72.45	43.51	20.68	4.67
Panel B: second model: $Y_{it} = \beta_0 + \beta_1 \cdot FBM +_{it} \beta_2 \cdot Size_{it} + \beta_3 \cdot Age_{it} + \varepsilon_{it}$,					
Dependent variables					
Constant	0.005**	0.189***	0.033	–0.003	–0.004
Foreign board member	–0.003***	0.081*	0.024*	–0.008***	–0.0002
Firm size	0.0005***	0.047***	0.017***	0.001***	0.001**
Firm age	–0.001*	0.101***	–0.011	0.006***	0.004
Adj. R^2	1.24%	16.77%	11.76%	6.20%	1.07%
F-statistics	5.09	66.83	44.53	22.58	4.53

Note: *** Significant at the .01 level (2-tailed), ** significant at the 0.05 level (2-tailed), * significant at the 0.10 level (2-tailed).

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Table 5. Results based on fixed effect regression

Variables	Turnover ratio	Tobin's Q ratio	Leverage ratio	Dividend yield	Return on assets
Panel A: first model: $Y_{it} = \beta_0 + \beta_1 \cdot FO_{it} + \beta_2 \cdot Size_{it} + \beta_3 \cdot Age_{it} + \varepsilon_{it}$,					
Dependent variables					
Constant	0.007***	0.317***	0.039*	–0.006	–5.670
Foreign ownership	–0.008***	0.375***	0.023	–0.014*	–0.010
Firm size	0.0004***	0.042***	0.017***	0.001***	0.001**
Firm age	–0.001**	0.075***	–0.011	0.007***	0.003
Adj. R^2	3.54%	4.60%	11.02%	6.71%	2.64%
F-statistics	4.27***	15.46***	12.03***	7.41***	3.42
Panel B: second model: $Y_{it} = \beta_0 + \beta_1 \cdot FBM +_{it} \beta_2 \cdot Size_{it} + \beta_3 \cdot Age_{it} + \varepsilon_{it}$,					
Dependent variables					
Constant	0.007***	0.322***	0.039*	–0.007	–0.0002
Foreign board member	–0.004***	0.073*	0.024*	–0.007***	–0.0003
Firm size	0.0004***	0.043***	0.016***	0.001***	0.001*
Firm age	–0.001**	0.075***	–0.012	0.007***	0.003
Adj. R^2	3.69%	23.62%	11.27%	7.29%	2.58%
F-statistics	4.42	28.55	12.32	8.01	3.36

Note: *** Significant at the .01 level (2-tailed), ** significant at the 0.05 level (2-tailed), * significant at the 0.10 level (2-tailed).

Panels A and B of Table 5 report the results of fixed effect regression for first and second models, respectively. This is achieved by running the model based on cross-sectional and time series regression. The time series regression result is reported in Table 5, results from other versions, not reported, yield the same trend and are available upon request.

The results presented in Panel A of Table 5 uncover a negative relationship between foreign ownership and *TR*, *DY*, which is significant at 1% and 10% level, respectively. Meanwhile, the relationship between foreign ownership and *TQ* is positively significant at 1%. Conversely, the relationship between foreign ownership and both *LEV* and *ROA* is insignificant.

The results presented in Panel B of Table 5 reveal that the relationship between foreign board membership and both *TR* and *DY* is significantly negative at 1% level. The relationship between foreign board membership and both *TQ* and *LEV* is positively significant at 10% level, while the relationship between foreign board membership and *ROA* is insignificant.

3.5. Discussion of results

The following subsection compares the results of the study with other findings in the literature to provide an opportunity for further investigation. We will divide the discussion into the following subsections in accordance with the variables.

3.5.1. Foreign ownership and firm performance: first and third hypotheses

This study used two traditional measures of performance: *TQ* as a proxy of firm value and *ROA* as a proxy for operating performance. In the first model, the results indicate that the existence of foreign ownership enhances the firm's value by increasing the *TQ* ratio. Thus, we could accept the first hypothesis for the first model. This is consistent with the outcomes of Wei et al. (2005) and Oxelheim and Randøy (2002). The result of the second model shows that the foreign board membership plays a monitoring role that induces a positive impact on firm value. Thus, this leads to accepting the first hypothesis of the second model. This result is also consistent with that of Oxelheim and Randøy (2002).

The results of our study demonstrate that the relationship between foreign ownership and *ROA* is insignificant, which leads to the rejection of the third hypothesis of the first model. Conversely, the foreign board membership in the second model demonstrates the positive impact of monitoring on improving the firm's operating performance by increasing the *ROA*. This is consistent with Douma et al. (2006), indicating that the positive effect of FBM on both firm value and operating performance based on the ability of foreign investors as board members to monitor the managerial action and impose pressure to improve manager performance (Phung & Vy Le, 2013).

Control variables: firm size and age appear to have a substantial positive impact on *TQ* at 1 % significant level in all regression models, while only firm size has a positive impact on *ROA*. It is 5% significant level in all regressions, except the model in Panel A of Table 4, whereby the significant level decreased to 10%. Larger and older firms have a higher firm value and better operating performance as they can generate more profit by using better technology and more diversified sources, and by applying better management strategies. This argument is based on the outcomes of Margaritis and Psillaki (2010) and confirms the relevance of the inclusion for the control variables.

3.5.2. Foreign ownership and dividend payment: fifth hypothesis

The results reveal a negative relationship between foreign ownership and the amount of dividend payment measured by DY; this leads to the acceptance for the fifth hypothesis in both first and second models. The result is consistent with Chiang and Kuo (2006). There are two possible reasons for the negative impact of foreign ownership on dividend payment. As discussed in section 2, foreign investors prefer firms that pay lower dividends to avoid tax expenses as they face a tradeoff decision between dividend return and capital gain return. Regarding the tax advantage of capital gain, foreign investors do not prefer to receive any dividend. This argument is based on the studies conducted by Chiang and Kuo (2006) and Dahlquist and Robertson (2001) and concurs with the findings of our research. This may be because foreign investor as a board member plays a monitoring role in imposing a negative impact on dividend payment, which leads to lower DY. The second potential rationale for this negative relation based on the outcomes of Durnev and Kim (2005). They argue that the negative impact of foreign investors is attributed to the preference to invest in a growth stock.

Consequently, foreign investors prefer firms to retain their earnings instead of distributing dividends to increase the firm's growth opportunity and maintain high capital gain. The positive and robust relationship between foreign ownership and *TQ* support this argument. Kang and Stulz (1997) argue that growth opportunity reflected in a firm's market valuation, which is *TQ* in our study. Thus, our results are consistent with the existing literature and provide additional evidence to the value relevance of foreign investment using another emerging market data.

Control variables: firm size and firm age appear to have a positive impact on DY at 5% significance level for all regression models; thereby indicating that larger and older firms can distribute more earnings as they can generate more profit (Margaritis & Psillaki, 2010). Moreover, this coincides with the fundamental concepts indicating that when old firms reach maturity, they are better able to distribute dividends and confirms the value relevance of featuring the two control variables in both models.

3.5.3. Foreign ownership and stock market liquidity: fourth hypothesis

The empirical results of this study support the negative perspective of the relationship between foreign ownership and stock market liquidity measured by TR. This leads to the acceptance of the fourth hypothesis for both models. Based on the earlier discussion in section 2, there are two potential explanations for this based on Rhee and Wang (2009), Lesmond (2005) and Amihud (2002):

- first, from an agency theory perspective, the existence of foreign ownership increases the level of information asymmetry, which imposes a negative impact on stock market liquidity reflecting in decreasing the TR;

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- second, foreign investors apply a buy and hold strategy as long-term investors. This imposes an adverse effect on stock market liquidity by reducing the frequency of trading volume; thus, the trade becomes less active and, consequently, the TR decreases.

Control variables: firm size has a significant positive impact on stock market liquidity measured by TR at 1 % significant level. This result is consistent with Amihud's (2002) study, which indicates a positive relation between firm size and stock market liquidity; firm size is a proxy for the publicly available information about the stock. Conversely, the results demonstrate an inverse relationship between firm age and TR, because the younger firms are more liquid than older firms. This result is consistent with Dey (2005), whose study reveals that firm size and firm age are the most critical determinants of TR.

3.5.4. Foreign ownership and leverage: second hypothesis

As mentioned in section 2, most studies indicate a negative relationship between foreign ownership and *LEV*. While we adopted the counter view in assuming the relationship is positive, the results of the current study are mixed. In the first model, results highlight an insignificant relationship between foreign ownership and *LEV*, which leads to the rejection of the second hypothesis for the first model. Whereas, the results for the second model that based on foreign board membership reveal the positive impact of foreign board member on *LEV* at a 10% significance level. Thus, the second hypothesis of the second model is accepted at 90% confidence level. The latter outcome, hypothesis 2 for the second model, is consistent with the study of Phung and Vy Le (2013), who argue that, from an information asymmetry perspective, foreign investors suffer more from information asymmetry than local investors. Therefore, they tend to force firms to use more debt as an alternative monitoring mechanism.

Control variables: firm size has a significant positive impact on *LEV,* since larger firms place greater reliance on external sources of funds to finance the firm project. This outcome is consistent with the study conducted by Margaritis and Psillaki (2010).

CONCLUSION AND DIRECTION FOR FUTURE STUDIES

This study's critical outcomes have proven that the existence of foreign ownership improves the quality of corporate governance by increasing the growth opportunity. Consequently, this study recommends that Jordanian companies welcome even small improvements in the implementation of corporate governance at firm level. This can be achieved by encouraging foreign investment and being more aware of the benefits of the monitoring role it can provide. The study considers that ASE is an emerging market with less investor's protection law, higher ownership concentration, and have higher market manipulation practices (Cumming et al., 2001; LaPorta et al., 1998; LaPorta et al., 2006). Therefore, adopting better corporate governance in crucial to rebalance these weaknesses within the legal environment.

Concerning agency problems, this study recommends investigating the relationship between foreign ownership and the level of information asymmetry in Jordan. We recommend a comparative analysis among local and foreign investors to capture whether they are more or less informed about the firms. This would provide an essential guideline since the overall evidence in studies conducted previously by Kang and Stulz (1997), and Dahlquist and Robertson (2001) is consistent with the argument that the information asymmetry may be a driving force behind the bias that exists in foreign holdings. Furthermore, we recommend more future research to explore in more details the nationality and identity of foreign investors as equity owners, this to help researchers conducting further investigation into foreign ownership. However, to enable such future studies, ASE must enforce transparent disclosure policies to ask companies to provide more information about foreign ownership to achieve a more comprehensive understanding of this vital topic. Meanwhile, considering the effort during the London initiative (2019) gathering, the study expects to have an impact on practice by demonstrating a range of ev-

idence related to the potential benefits of forming investment and the existence of foreign members on the board of the Jordanian companies. To our knowledge, this study is the first to address the potential impact of foreign investments and the existence of foreign membership. We expect the Jordanian authorities to consider opening the door to more foreign board members in light of this study's outcomes and the impact on practice. Finally, extending the study to cover other countries in MENA region and its duration is anticipated to reveal more critical outcomes that help practitioners in the whole region and enhance the market efficiency in the capital markets of the region. Moreover, it will help enhance transparency to encourage more investment in the region, as it is expected to reflect positively on the business environment of the region.

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