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Article

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Cogent Business & Management

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Suggested Citation: AlQudah, Alaa Mohammad; Azzam, Mohammad Jamal; Haija, Ayman Ahmad Abu; Haija, Ayman Ahmad Abu; AlSmadi, Safaa Adnan (2020) : The role of ownership map in constraining discretionary loan loss-provisions decisions in Jordanian banks, Cogent Business & Management, ISSN 2331-1975, Taylor & Francis, Abingdon, Vol. 7, Iss. 1, pp. 1-16, <https://doi.org/10.1080/23311975.2020.1752604>

This Version is available at:

<https://hdl.handle.net/10419/244839>

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To cite this article: Alaa Mohammad AlQudah, Mohammad Jamal Azzam, Ayman Ahmad Abu Haija & Safaa Adnan AlSmadi | (2020) The role of ownership map in constraining discretionary loan loss-provisions decisions in Jordanian banks, Cogent Business & Management, 7:1, 1752604, DOI: 10.1080/23311975.2020.1752604

To link to this article: <https://doi.org/10.1080/23311975.2020.1752604>



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Received: 03 February 2020
Accepted: 01 April 2020

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ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

The role of ownership map in constraining discretionary loan loss-provisions decisions in Jordanian banks

Alaa Mohammad AlQudah^{1*}, Mohammad Jamal Azzam¹, Ayman Ahmad Abu Haija² and
Safaa Adnan AlSmadi¹

Abstract: Banks' shareholders are mainly concerned with maximizing their profits. As a result of passing their monitoring tasks to another group (managers), the maximization goal could be threatened by manipulating bank's provisions to accomplish a specific set of goals for managers. Hence, introducing active owners in banks ownership map is expected to reduce the agency problem among the different groups inside the bank. In line with this argument, this study aims mainly to explore the monitoring ability of different types of owners within the Jordanian banks listed on the Amman Stock Exchange in reducing the adoption of loan loss provisions (LLP) techniques to manipulate earnings figures. Selecting fifteen listed banks between 2013 and 2018, and applying a multivariate analysis, guide to the main findings of the study which introduced foreign owners, institutional owners, and blockholders owners as deterrent players in accepting LLP manipulations. However, family and managerial ownership showed a low level of conservatism in reducing LLP techniques within the Jordanian banking sector. The findings of this study present several shares of evidences that the ownership map in Jordanian

ABOUT THE AUTHOR

All the authors have worked together to guarantee the publication of their article. Each one of the authors has agreed on the quality of this article and all of them have agreed on sending it to be published. Alaa Alqudah designed the study, participated in collecting the data and wrote the manuscript. A critical and major review of the manuscript before the submission was done by Mohammad Azzam and he also participated in analyzing the data. The formatting, proofreading and participating in writing the article was carried out by Ayman Abu Haija. While editing and typesetting of the final draft were done by Safaa Adnan Al-Smadi.

PUBLIC INTEREST STATEMENT

During the last years, the regulators, practitioners and other groups have paid attention to scandals connected directly to earnings management (EM). Indeed, EM is a technique in which banks may adopt to influence the reported earnings to fulfill management goals by selecting the most appropriate techniques without any breaching to the accounting standards. Hence, interested groups in banks financial results (performance) may struggle with having a clear evaluation of managers practices under the EM umbrella, especially in the banking sector. Therefore, there is an ambiguity in such practices. Hence, this study aims mainly to evaluate the effectiveness of ownership structure in reducing the prevalence of loan loss provisions techniques within the Jordanian banking sector between 2013 and 2018 over a sample of 15 listed banks in Amman Stock Exchange. The findings are expected to be useful for various groups of interested users such as governments, shareholders, creditors since it is expected to shed light on EM practices in the banking sector in Jordan.

banks needs more efforts and experience to protect bank's earnings from being expropriated by banks boards members. Interestingly, this study adds to the current literature by exploring the roles of the various types of owners in constraining LLP techniques from a developing market such as Jordan.

Subjects: Corporate Finance;; Banking;; Accounting;; Corporate Governance;;

Keywords: loan-loss provisions; ownership structure; Jordan and banks

1. Introduction

The business world witnessed noticeably publicized failures of well-known firms such as Enron, Adelphia, Tyco and Lehman Brothers. The weakness in legislated regulations and the gaps within the accounting standards may provide opportunities to managers to manipulate bank's earnings (Man & Wong, 2013). According to Chen and Zhang (2014), the presence of divergence in goals between the responsible groups in a firm is expected to change the monitoring road map in a way that increases the benefits of the powerful group. Hence, this discrepancy in goals has supported the presence of various issues such as earnings management (EM), which is considered a focal issue in both developed and developing markets.

EM is defined as the intentional act of manipulation in the financial reports with the purpose of realizing self-interests (Schipper, 1989). Although it is simple to define EM, it is not easy to be measured. Li (2018) argues that this difficulty of measurement is due to the fact that accounting discretion is indecipherable. In other words, managers take advantage of their controlling position to reflect their greediness through several maneuvers around earnings in which their personal benefits are maximized (Saftiana et al., 2019). To take this problem separately, most studies on EM have opted to examine loan-loss provisions as a tool to measure earnings manipulation in firms (Grassa & Chakroun, 2016; Lassoued et al., 2018; Teoh et al., 1998). Earnings figures indeed are important signals for both internal and external users, while stable, reliable and profitable firms are a must to enhance firms' continuity (Alhadab & Al-Own, 2017; Ciftci et al., 2019). In addition, the issue of EM aims to report a stable level of earnings in order to report an unwavering figure of profit that secures managers' positions from being taken from other managers (Alves, 2012).

Therefore, the consequence of EM practices may enhance a firm's financial figures or harm the overall financial position of the firm, interestingly, it depends on managers' motivations behind adopting such appropriate techniques (Bornemann et al., 2012). EM could be an important tool to affect the flow of information that could be used by interested users to make efficient investment decisions (Chen & Zhang, 2014). As a result, several corporate governance (CG) mechanisms, and ownership structure per se, have been introduced as a tool to reduce conflict of interests and to monitor managers' activities. For example, managers tend to act less greedy if they own shares in the firm (Lassoued et al., 2018; Warfield et al., 1995). Institutional and block-holders are also suggested to reduce opportunistic behavior since they have adequate experience and authority (Lemma et al., 2018; Liu et al., 2018).

This research examines EM in the banking sector of Jordan. This sector is well established, organized and has been well-performed recently. Jordan has a bank-based financial system where the banking sector holds up the economy. Moreover, **several CG frameworks** have been established in the last two decades, for instance, in 2004, the "Bank Directors' Handbook of Corporate Governance" was introduced by the Central Bank of Jordan to provide guidelines for banks on the area of CG. In 2008, the corporate governance code (CGC) was developed based on complying or explaining.

The effectiveness of an economy depends on the success of the financial institutions in enhancing market stability (Kang et al., 2013). Financial sector plays a significant role in supporting the survival and the continuity of the international economic systems (Alhadab et al., 2015; Eavis, 2008). More

precisely, banks and other financial entities were the main sparks that fired up the financial crisis in 2008. The negative consequences of such a crisis have affected the global financial markets in a way that altered principals and other groups' trust in banks' financial positions. Indeed, the root of the problem in this study goes back to the framework presented by agency theory in which the disconnection in responsibilities between owners and managers has introduced a crashing area among firm's agents and principals in terms of their interests (Jensen & Meckling, 1976). This collision in goals may motivate managers to make several decisions in a way that enriches them personally instead of making beneficial decisions that boost shareholders' interests (Bao & Lewellyn, 2017). In other words, agents who are expected to be stewards in controlling institutions may disappoint shareholders' expectations in maximizing their investments, since they prefer to exercise their personal decisions to gain more bounces and benefits (Hillman & Dalziel, 2003).

Therefore, and to constrain the crashing area in interests, CG mechanisms and ownership structure have been introduced as expected solutions to constrain managers' opportunistic behaviors that may threaten firms' earnings (Jamaludin et al., 2015; Lassoued et al., 2018; Man & Wong, 2013). Additionally, and after the financial crisis of 2008, banks may have been motivated to alter banks income numbers to impede the existence of future crisis (Alhadab & Al-Own, 2017; Mahdavi-Ardekani et al., 2012). As a result, this study aims to investigate the role of the ownership map in constraining discretionary loan loss-provision decisions within the context of the Jordanian-listed banks.

2. Overview of the Jordanian business environment

The presence of public corporations in Jordan dates back to 1930 when the Arab Bank was established. The Jordanian government has carried out noticeable efforts to cope with the global developments in terms of the financial markets, and this has been achieved by establishing a market for trading shares in 1978. More importantly, in 1997, 'The Securities Law No. 22' was issued to organize the financial market in Jordan. It established three main institutions: Amman Stock Exchange (ASE), Jordan Securities Commission (JSC) and Securities Depository Center (SDC).

On the one hand, the ASE has a clear level of independence in terms of financial and controlling issues. The core tasks of ASE are revolving around explaining the main legal channels of increasing firms' capital, having the upper controlling hand in order to oversee the market transactions and a smooth trading of firm's shares in the market. On the other hand, the JSC's instructions state that the main responsibility of the JSC is to ensure that all listed firms operate under the umbrella of the International Financial Reporting standards (IFRS) as well as organize the market to make it an attractive environment for investment, especially foreign investment. Of equal importance, the SDC is established to organize the process of buying and selling firms' shares and keep organized records for such transactions (JSC, 2020).

To cope with the international effort in legislating CG codes, the Central Bank of Jordan has issued a handbook of CG for Jordanian banks in 2004. After that, in 2008 their efforts continued to issue a clear code of CG derived from the Organization of Economic Cooperation and Development's (OECD) practices to guarantee the presence of a valid set of CG practices. The main goal of this code is to enhance shareholders' protection, increase transparency in terms of bank's financial statements and to develop the supervision over them. Specifically, listed banks are required to disclose the commitment level to the CGC, the role of the board of directors, board's committees and their transparency policy.

3. Literature review and hypotheses development

3.1. Theoretical framework

In corporations, firm's owners are under pressure to appoint intermediaries on behalf of them to carry out firm's operational and financial activities in a way that guarantees a smooth boost in shareholders' welfare (Jensen & Meckling, 1976; Schroeder et al., 2001). This separation in activities may open the door for spokes directors to manage firms in a parallel path to deviate from the classical goal

of their appointment to go beyond shareholders' expectations to obtain more remunerations and bonuses (Bao & Lewellyn, 2017). This divergence in interests may create disagreements between shareholders and their representatives. To pave the way for shareholders to ensure that their investments are in qualified hands, several mechanisms have been introduced to guarantee the success and continuity of their firms by, for instance, adopting CG codes or by having a diverse and qualified ownership map that may support the controlling process in firms (Al-Jaifi, 2017; Man & Wong, 2013).

Introducing active owners such as institutional or foreign owners is expected to align the interests' expectations between the firm's principals and their representatives (Lassoued et al., 2018). Indeed, such experienced, qualified and knowledgeable owners are expected to reduce the divergence among the interested groups in the firm's environment. Active owners will be rigorous and accurate in controlling banks activities since they want to reflect a good impression about their monitoring roles to gain more returns on their invested funds as well as to increase their personal benefits (Lel, 2016). Therefore, the theoretical framework used in this study is shaped to present active and qualified owners as uncompromising owners in accepting EM decisions that could be made by bank boards to alter bank's earnings negatively. Indeed, they are diligent owners who are expected to reduce the agency issue in the bank's environment. Thus, this study aims mainly to explore the relationship between EM and ownership map in Jordanian banks listed in the ASE between 2013 and 2018.

3.2. Earnings management and foreign ownership

In general, the survival of corporations may be connected to their interaction with the local and external investment environments (Pfeffer & Gerald, 1978; Zona et al., 2018). To diversify the investment map of corporations, they may be willing to direct their investments beyond their home borders in a way that guarantees the survival of their investments (Meng et al., 2018). Foreign owners are seen as sophisticated and experienced investors in directing principals' money in a way that maximizes their firm's wealth. Additionally, since they are the trustees on their firm's investments, the acceptance and the passage of opportunistic behaviors that may affect banks' earnings are not considered as agreeable or negotiable decisions, since they may lose their positions and benefits (Alrabba et al., 2018). Moreover, foreign owners with powerful corporate regulations can be qualified and experienced monitoring players who cannot pass earnings manipulations since they are expected to reflect their traditionalist monitoring background in accepting decisions that may threaten bank's earnings (Lassoued et al., 2018). In addition, they are not motivated to create several communication channels with local owners and investors that may affect their restricted monitoring positions (Gillan & Starks, 2003).

In line with the active role of foreign owners, Meng et al. (2018) found that foreign owners were more experienced and knowledgeable in supporting the adoption of CGC by enhancing the appointment of independent members as a mechanism to constrain EM prevalence in the Chinese firms. Furthermore, foreign owners with a specific stake of shares (50%) were a salient monitoring tool needed to protect the firm's profits in a way that protects shareholders' investments (Al-Jaifi, 2017). Over the above, Lai and Tam (2017) claimed that outside owners of the firm's shares were more conservative in accepting EM actions that could be used to meet various thresholds (e.g., delisting) within the Chinese firms. Interestingly, foreign owners were one of the main effective components within the ownership map obstructing earnings of being boost within the Malaysian context (Shayan-Nia et al., 2017).

In contrast, some evidence claimed that foreign owners may behave passively in contrary to their monitoring roles for various reasons such as a shortage in their investment plan in which they may be not willing to take a serious set of controlling steps to mitigate managers of altering firm's earnings. Supporting this argument, Liu et al. (2018) found evidence that the monitoring behavior of foreign owners is affected directly by investment duration since the financial reports prepared under the supervision of foreign investors with short-term investment duration were fertile lands to disclose earnings manipulations effects.

To sum up, agency theory proposed an effective role of foreign owners in enhancing the firm's overall monitoring plan to mitigate the consequence of the crashes in interests in corporations. In general, the experience, knowledge and consciousness of their monitoring tasks have introduced foreign investors as a solid and effective tool to protect the firm's earnings from being misrepresented by greedy managers. Hence, this study adopts the theoretical position presented by agency theory and thus the following hypothesis is adopted:

H₁: discretionary loan loss provisions decisions and foreign owners are correlated negatively.

3.3. Earnings management and institutional ownership

Institutional owners have been defined as institutions that own a specific stake of corporation shares. Such owners have several characteristics that facilitate their roles in monitoring firms and overseeing board activities in a way that constrains the prevalence of harmful decisions that may amend banks' profits negatively. For instance, Lassoued et al. (2018) found that the monitoring role of such owners was more pronounced in constraining EM techniques within the scope of the conventional banks compared with the Islamic banks within the MENA region. Moreover, qualified and experienced institutional investors with long-term investment plans were more functional in taking their monitoring tasks seriously to constrain EM techniques (Sakaki et al., 2017).

The independence and experience were the main motivations for institutional owners to deviate more efforts needed to constrain EM decisions (Lel, 2016). Withal, Grassa and Chakroun (2016) found that the large stake of shares owned by institutional investors has introduced such owners as an important tool that enhanced financial reports transparency in a way that satisfies shareholder's needs and protects the interests of the minority shareholders. Furthermore, the Jordanian institutional owners' efforts were superior and noticeable in enhancing the quality of board monitoring behaviors by constraining EM activities (Saleem Salem Alzoubi, 2016). Interestingly, in line with "*hometown advantage hypothesis*", local institutional investors have the power and knowledge to create the required monitoring channels to constrain EM behaviors (Kim et al., 2016).

In contrast, a few sets of investigations have presented a contradictory point of view regarding the expected role of such owners in restricting decisions related to discretionary loan loss provisions. Consistent with this line, the Indonesian institutional investors were not enough sophisticated and experienced to have the upper monitoring hand to constrain EM observations (Saftiana et al., 2019). As well, Bao and Lewellyn (2017) found that institutional investors failed to reduce the stress between bank owners and spokes directors. Furthermore, Lemma et al. (2018) failed to support the active role of such owners in reducing the presence of EM decisions over a sample from 41 countries. Indeed, institutional investors were not efficient enough to pool up the interests of the firm's agents and principals in one boat.

Based on the previous disagreement in prior studies regarding the effectiveness of such owners in protecting bank's earnings from being an easy hunt (target) for opportunistic managers, this study adopts the active preposition of the institutional owners presented by agency theory in which such owners are willing to devote more efforts and experience in controlling banks activities. Therefore, the following hypothesis is adopted:

H₂: discretionary loan loss provisions decisions and institutional ownership are correlated negatively.

3.4. Earnings management and blockholders ownership

Ownership map introduces another sophisticated spoke owner who may play a noticeable role in reducing the crashing area between institution owners and their representatives. Blockholders have been defined as individuals who own an impressive stake in the firm's shares. Prior literature has

introduced two schools that may explain their monitoring behavior. The proponents of their existence claim that the presence of blockholders is expected to alleviate the negative consequences of agency problems (Maatougui & Halioui, 2019). In fact, they are considered as an alignment tool which is needed in firms to carry out their observation tasks seriously in order to protect their investments and further to gain more benefits and dividends on their shares (Lassoued et al., 2018).

Under this perspective, Mohamed et al. (2018) found that blockholders were behaving as a knowledgeable monitoring tool in terms of reducing the presence of opportunistic decisions connected to loan loss provisions area within the Nigerian context. Additionally, those investors were conscious enough about their needed tasks to protect shareholders' investments (KhosroKhah et al., 2018). Furthermore, Ilmas et al. (2018) found that the monitoring tasks have been delegated efficiently to experienced hands (blockholders) due to their ability to reduce earnings manipulations in Pakistan.

On the contrary, the entrenchment hypothesis has introduced blockholders as a passive tool in solving the conflict of benefits issue in corporations. Indeed, the granted power extracted from their valuable stake in a firm's share may motivate them to direct manager's behaviors in a way that guarantees the maximization of their own interests at the expense of minority shareholders. A good example of this argument is presented by San Martín Reyna (2018) who found that the Mexican blockholders failed to take advantage of their monitoring positions to constrain EM levels in general. Truthfully, the monitoring behavior of such owners has been affected noticeably by firm size or sector. Likewise, the blockholders monitoring attitudes were frustrating to the firm's shareholders' expectations since they were incapable to increase the quality of earnings within the Indonesian context (Amin et al., 2018).

To conclude, the disharmony in the extracted findings presented in prior studies regarding the effectiveness of such owners in constraining loan loss provisions techniques goes for many reasons: rareness in studies that covered the financial sectors instead, and the neediness to carry out further investigations to contribute to current literature in order to clarify their role in constraining EM techniques. So, the following hypothesis has adopted:

H₃: discretionary loan loss provisions decisions and blockholders ownership are correlated negatively.

3.5. Earnings management and managerial ownership

The conflict in preferences between the spokes directors and shareholders may be solved via aligning the benefits expectations for both groups in one path by granting managers a high valued stake of shares (Warfield et al., 1995). This grant is expected to motivate managers to devote extraordinary monitoring efforts to maintain satisfied levels of earnings that reflect the firm's accurate income figures (Alves, 2012). On the one hand, shaping the ownership map by including managers as the main player in holding firm's shares was one of the main issues that reduced the levels of loan loss provisions decisions (Hribar et al., 2017). Additionally, the managerial shares have motivated the firm's representatives to be more aware to monitor and reduce EM actions that may affect shareholders' trust in the firm's financial reports within the Indonesian market (Popoola et al., 2016).

On the other hand, the participation of management in holding firm's shares may have a contradictory impact on firms' monitoring systems related to constraining EM decisions. The logical explanations of such passive proposition is explained by Al-Fayoumi et al. (2010) who suggest that granting managers a set of firm's shares may facilitate the opportunity of adopting unfavorable decisions that may alter bank's financial position since they are free of stress in order to meet market or other groups' expectations (Alves, 2012). In other words, they may find an unobserved area to practice their discretions over the firm's figures since they are expected to be faithful and reliable in controlling the firm's earnings (Waweru & Prot, 2018). Therefore, they are

motivated to alter firm's income in a shadow area without any monitoring from shareholders, due to principals' expectations that they aligned managers' interests with their interests, therefore, there is no need to pay additional monitoring costs to minimize the interests' gap (Ali et al., 2008). For example, the Nigerian managers were less motivated in restricting the prevalence of EM decisions even with granting them a stake in a firm's share (Waweru & Prot, 2018). Additionally, the benefits obtained from passing EM practices were more valuable and precious for managers compared with the distributed dividends on their shares (Susanto & Pradipta, 2016). In add, Shayan-Nia et al. (2017) supported the prior evidence by documenting no effect of managers' shares in reducing real EM actions within the Malaysian firms.

Indeed, the impact of granting managers a stake in the firm's shares is still a negotiable issue, since the incentives that drive managers monitoring behaviors vary from one context to another. However, agency theory suggests a touchable monitoring role in adjusting the opportunistic actions that could be made by managers to alter the firm's earnings negatively or at least to gain personal benefits. Hence, this study follows this argument by expecting a noticeable effect of managerial ownership in constraining managers' actions related to loan loss provisions in Jordanian banks. As a result, the following hypothesis is raised:

H₄: discretionary loan loss provisions decisions and managerial ownership are correlated negatively.

3.6. Earnings management and family ownership

The existence of family shares on a firm's ownership map may have contradictory effects on firm's earnings. The first stand of literature claims that family members may be more inclined to disseminate the required information regarding profits figures. As a matter of fact, they are motivated to protect their investments from being altered by opportunistic spokes directors, since they are concerned mainly in protecting their reputation (Wang, 2006). For example, Tian et al. (2018) documented that dealing with the stress between firm's owners and their representatives was easier tackled than the context of family firms since such owners are professional and experienced in detecting unfavorable decisions that may affect firm's earnings. Furthermore, the context of family firms was outstanding and competent experience in the path of using undesirable practices that may affect the figures of income within the Pakistani market (Hashmi et al., 2018). Supporting the prior studies, granting a set of firm's shares to family members was one of the main scrutiny instruments that could be applied to minimize the usage of loan loss provisions decisions negatively (Lassoued et al., 2018).

In contrary, a group of researchers supports the "*entrenchment hypothesis*" which in general claims the following; family members are more inclined to conceal the real earnings of firms in order to reduce the probability of sharing the firm's earnings with other investors (free-riders) who have a short run investment policy. Therefore, they are motivated to expropriate firm's earnings at the expense of the minority shareholders' expectations. Indeed, such a situation may push family members to intervene and weaken the overall monitoring process to gain extra personal benefits (Shleifer & Vishny, 1997). In this regard, Razzaque et al. (2016) claimed that the behaviors of manipulating a firm's earning, opportunistically, were more traceable in family firms within the Bangladesh context. Importantly, Zainuldin and Lui (2018) found that conventional banks manifest tendencies to create specific channels to alter bank's earnings compared with the Islamic banks which show more conservative and reluctant in accepting the unaccepted decisions that may deepen the crashing area in banks. The Saudi context contributes to the current literature by providing an example that, the context of family firms was not a fertile ground to protect a firm's earnings from being altered (Habbash & Alghamdi, 2017).

In a nutshell, the discussion regarding the effectiveness of family firms in restricting the unfavorable decisions that could affect a firm's earnings is still a controversial issue especially, in

financial institutions. Therefore, the current stand of studies needs more examples about the feasibility of such owners in protecting shareholders' investments from being taken opportunistically by shareholders' representatives. Hence, this study formulates the following hypothesis:

H₅: discretionary loan loss provisions decisions and family ownership are correlated negatively.

4. Methodology

This part sheds the light on how the current study extracted the needed data, how the sample has been chosen and how each variable is measured. This study is a clear example of analyzing a set of secondary data that needs less time and effort to extract the data related to the issue under research. Furthermore, it is beneficial in exploring the research case without any interaction of human players in which the obtained results can be interpreted accurately (Hair et al., 2015). Generally speaking, to cover the scope of this study, banks should be characterized as follows:

- (1) Enough and clear level of disclosure related to the study's variables is a must.
- (2) Banks' shares should be available to be traded regularly at ASE during the study period.
- (3) Banks with a shortage in disclosures and required data are excluded.

4.1. Data and sampling

This study aims mainly to provide new evidence of ownership effectiveness in constraining discretionary loan loss-provisions decisions in Jordanian banks. In fact, prior studies have excluded banks due to the uniqueness in operations and characteristics, and instead, they focused on the industrial and services sectors to examine ownership effectiveness in adjusting managers' opportunistic behaviors. Therefore, the sample in this study covers the Jordanian listed bank in (ASE) between 2013 and 2018. The required data in terms of ownership structure and loan loss provisions have been collected manually from the JSC website and bank's annual reports. Table 1 explains the study sample.

4.2. Dependent variable (earnings management)

The accounting literature is rich in studies that estimated the levels of managers' opportunistic behaviors either via discretionary accruals or real EM (Li, 2018). These are the most common indexes applied within the scope of the non-financial sectors (Alhadab & Al-Own, 2017). However, financial institutions tend to adopt different approaches to manipulate their earnings. Indeed, financial institutions such as banks prefer "Discretionary loan loss provisions (DLLP)" to shape banks' earnings in a way that supports manager's preferences (Alhadab & Al-Own, 2017; Anandarajan et al., 2003; Burgstahler & Dichev, 1997). Simply put, the DLLP cannot be computed directly; the following steps must be followed to calculate the DLLP:

- (1) The total loan loss provisions (TLLP) should be estimated.
- (2) The non-discretionary (ND) part of the TLLP should be calculated.
- (3) The residual (difference) between the TLLP and NDLLP is indexed to managers' opportunistic behaviors (EM).

Table 1. Study Sample

The overall working banks in Jordan	24
Banks with traded shares at ASE	15
Banks with missing data	(1)
Final study sample	14

Hence, this study is in line with previous investigations taken by (Alhadab & Al-Own, 2017; Lassoued et al., 2018; Zainuldin & Lui, 2018) to calculate the DLLP levels of the selected listed banks at ASE between 2013 and 2018. The subsequent model explains the adopted model:

$$LLP_{it} = \alpha_0 + \alpha_1 NPL_{it-1} + \alpha_2 \quad (1)$$

4.3. Independent variables (ownership structure)

The covered ownership map in this study includes five types of representatives who are expected to reduce the tension appears in the relationship between agents and principals. **Foreign ownership (FOR.OWN)** is estimated as the percentage of traded shares taken by international institutions or individuals with a minimum percentage of 5 percent. **Institutional ownership (INST.OWN)** refers to the percentage of shares taken by large companies or institutions with a minimum percentage of 5 percent. In terms of **Blockholders ownership (BLOK.OWN)**, this study estimates it as the percentage of shares taken by individuals with a minimum percentage of 5 percent. The percentage of shares holds by bank's managers with a minimum percentage of 5 percent is used to measure the **Managerial ownership (MANG.OWN)**. Finally, **family ownership (FAM.OWN)** is estimated as the percentage of shares taken by family members with a minimum percentage of 5 percent.

4.4. Control variables

In line with prior efforts devoted to this field of investigations, this study selects a group of control variables that are expected to reduce the disturbance caused by some factors such as bank size, return on assets and leverage levels. This study employs the following regression equation in order to provide a reliable answer to the research question. Table 2 illustrates the measurement criteria used in this study.

$$DLLP_{it} = \beta_0 + \beta_1 FOR.OWN_{it} + \beta_2 INST.OWN_{it} + \beta_3 MANG.OWN_{it} + \beta_4 BLOK.OWN_{it} + \beta_5 FAM.OWN_{it} + \beta_6 BANK.SIZE_{it} + \beta_7 ROA_{it} + \beta_8 LEV_{it} + \varepsilon_{it}$$

5. Results and discussion

This section describes the variables of listed banks on the ASE from 2013 to 2018. As indicated in Table 3, the mean of the absolute value of DLLP is approximately 54 percent with a median of 33 percent. This relatively high level of EM may indicate that Jordanian banks try to polish their earnings to maintain current investors as well as attract potential investors, especially foreigners. This is especially true given that the SDC disclosed that the level of foreign ownership in listed firms at the ASE increased from 46 percent in 2013 to 50 percent in 2018. Hence, banks may alter earnings by means managing of LLP to provide investors and other stakeholders with an attractive financial position.

The statistics also show that mean (median) value of stocks owned by foreigners (FOR.OWN) is reported at 40 percent (30 percent), and more importantly, the majority of stocks in some banks are owned by foreign investors (i.e. the maximum level of their ownership in these banks reached 87 percent). Therefore, high competition between listed banks may arise in order to present themselves as profitable and successful banks thus attract more foreign ownership. The mean value of institutional ownership (INST.OWN) is 26.3 percent and the median is 21 percent. More interestingly, some banks are totally owned by institutional investors (see Table 3). This result lends credence to the assumption that listed banks at the ASE are attractive for foreign and institutional investors.

Regarding managerial ownership (MANG.OWN), a relatively low percentage of stocks is owned by banks' managers where the mean (median) value recorded for them is 7.8 percent (6.3 median). Indeed, the majority of firms' managers on the Jordanian context are awarded a fixed contract (i.e. salaries and other financial privileges) and there are no stocks or stocks optioned are assigned for them. This, in turn, may justify the low percentage of their ownership. In a similar vein, blockholders ownership (BLOK.OWN) and family ownership (FAM.OWN) also own

Table 2. Measurement criteria

Variable Name	Abbreviation	Variable Definition	Source
Discretionary Loan Loss Provisions	DLLP	Discretionary loan loss provisions	(Alhadab & Al-Own, 2017; Lassoued et al., 2018; Zainuldin & Lui, 2018).
Foreign Ownership	FOR.OWN	The percentage of traded shares taken by international institutions or individuals with a minimum percentage of 5 percent.	(Alrabba et al., 2018; Hamdan, 2018; Meng et al., 2018).
Institutional Investors	INST.OWN	The percentage of shares taken by large companies or institutions with a minimum percentage of 5 percent.	(Aybars & Ataünal, 2018; El-Diftar et al., 2017; Lemma et al., 2018).
Managerial Ownership	MANG.OWN	The total percentage of shares holds by bank's managers with a minimum percentage of 5 percent.	(Alves, 2012; Shayan-Nia et al., 2017).
Blockholders Ownership	BLOK.OWN	The percentage of shares taken by individuals with a minimum percentage of 5 percent.	(Liu et al., 2018; Maatougui & Halioui, 2019).
Family Ownership	FAM. OWN	The percentage of shares taken by family members with a minimum percentage of 5 percent.	(Hashmi et al., 2018; Makhlof et al., 2018; Tian et al., 2018).
Bank Size	BANK.SIZE	The natural logarithm of banks assets.	(Alrabba et al., 2018)
Return on Assets	ROA	Is estimated by dividing the bank's income by total bank's assets.	(AlQudah et al., 2019; Alrabba et al., 2018).
Leverage	LEV	Total liabilities divided over banks assets.	(AlQudah et al., 2019).

Table 3. Descriptive statistics for the dependent, independent and control variables

Variables	Minimum	Maximum	Mean	Median	SD
DLLP	0.009	5.468	0.543	0.332	0.862
FOR.OWN	0.000	0.870	0.401	0.300	0.283
INST.OWN	0.050	1.000	0.263	0.210	0.252
MANG.OWN	0.000	0.472	0.078	0.063	0.089
BLOK.OWN	0.000	0.227	0.050	0.057	0.055
FAM.OWN	0.000	0.296	0.068	0.056	0.085
BANK.SIZE	7.977	10.69	9.377	9.359	0.474
ROA	0.024	2.040	0.121	0.120	0.044
LEV	0.075	0.984	0.869	0.867	0.033

This Table illustrates the descriptive statistics for the dependent, independent and control variables of listed banks on the ASE from 2013 to 2018. All variables are defined previously in Table two.

a low number of banks' stocks where the mean of their ownership is 5 percent and 6.8 percent, respectively. The statistics reported in Table 3 corroborates the proposition that listed banks are very attractive for both foreign and institutional investors as they hold approximately 67 percent of banks' stocks.

Table 4. Correlation matrix of Pearson coefficients

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FOR.OWN	(1)	1.000							
INST.OWN	(2)	0.608*	1.000						
MANG.OWN	(3)	-0.385*	0.301*	1.000					
BLOK.OWN	(4)	-0.375*	0.001	0.473*	1.000				
FAM.OWN	(5)	-0.072	-0.144	0.330*	0.474*	1.000			
BANK.SIZE	(6)	0.240*	-0.237*	-0.310*	0.067	-0.007	1.000		
ROA	(7)	0.124	-0.201	-0.241*	0.177	0.209	0.199	1.000	
LEV	(8)	-0.097	-0.103	0.002	0.203	0.096	0.091	-0.194	1.000

This Table illustrates the Pearson correlation coefficients of banks listed on the ASE from 2013 to 2018. The symbol (*) denotes significance at 5 percent in two-tailed test. All variables are defined previously in Table two.

This study checks several assumptions (i.e. multicollinearity, linearity, normality, and homoscedasticity) before conduct regression analysis. Table 4 reports the correlation matrix of Pearson coefficients to check multicollinearity which starts to create a concern when the correlation between two variables reaches 70 percent or more (Asteriou & Hall, 2011, 2015; Gujarati, 2009). The highest correlation recorded in this study is 60.8 percent between foreign ownership (FOR.OWN) and institutional ownership (INST.OWN). A possible justification of this relatively high correlation is that the majority of foreigners are also institutional investors, thus this correlation is highly expected. Overall, multicollinearity does not appear to have an impact on the results of the regression model. Other assumptions of regression analysis are met except that data is not normally distributed. To overcome this issue some variables are transformed (i.e. banks size by using the natural logarithm).

The results of the regression analysis are reported in Table 5. It shows a negative and significant association between foreign ownership (FOR.OWN) and DLLP (coefficient = -5.224 and $p < 0.01$). This result is consistent with the current study's prediction as well as with the findings of previous studies that the ability of banks' managers to manipulate earnings is decreased when the bank's ownership structure includes more foreign investors. This is most likely because foreigners are knowledgeable, diligent and have different backgrounds, which in turn helps them in limiting the magnitude of DLLP. To conclude, the presence of foreign investors with a considerable percentage of ownership is considered a clear signal that the quality of a bank's financial reporting is high. Based on the current study's findings, H_1 is accepted.

Table 5. Results of the association between banks' ownership structure and DLLP

Hypothesis	Variable	Predicted sign	Coefficients	Results
	Intercept		5.086*	-
H1	FOR.OWN	-	-5.224***	Accepted
H2	INST.OWN	-	-5.426***	Accepted
H3	MANG.OWN	-	-0.565	Not accepted
H4	BLOK.OWN	-	-16.09***	Accepted
H5	FAM.OWN	-	-2.186	Not accepted
	BANK.SIZE	-	-0.452*	-
	ROA	-	-0.022	-
	LEV	+	4.901*	-
Adjusted R ²			29.7	
P-value			0.000	

This table presents the results of OLS regression for the association between banks' ownership structure, control variables and DLLP. The sample comprises listed banks on the ASE from 2013 to 2018. All variables are defined previously in Table two.

The symbols (*), (**) and (***) denote significance at 10, 5 and 1 percent, respectively, in two-tailed test.

This study also proposes that institutional investors may be associated with a reduction in the level of DLLP. The results reported in Table 5 support this proposition and show a negative and significant association between institutional investors (INST.OWN) and DLLP (coefficient = -5.426 and $p < 0.01$). This result could be based on the reasoning that institutional investors, especially those who hold stocks for long term, are distinctive in their recourses, accumulated knowledge and, experience in running firms effectively since they are more concerned in protecting their investments to guarantee convincing returns to gain further support to expand their investments in a way that achieve shareholders goals. This result also is in line with the findings of previous studies in different contexts such as Lel (2016) and Kim et al. (2016). Therefore, H_2 is accepted.

Blockholders ownership (BLOK.OWN) is also found to be negatively associated with DLLP (coefficient = -19.09 and $p < 0.01$). While the mean value of blockholders' ownership is relatively low (i.e. 5 percent), they play a pivotal role in limiting earnings manipulation in listed banks. This result indicates that what is important in monitoring managers is not the percentage of holding per se, but rather the ability of stockholders to detect and limit discretionary decisions undertaken by banks' managers. While there is a controversy in prior research regarding the potential role that blockholders ownership may play in curbing DLLP, the current study's findings corroborate the perspective that those owners may help in minimizing the negative consequences of the agency problem, thus producing high-quality financial reporting. Based on this result, H_4 is accepted.

Regarding managerial ownership (MANG.OWN) and family ownership (FAM.OWN), the reported results fail to support their propositions as the coefficients are negative but statistically insignificant. This means that ownership of managers, as well as persons from the same family does not have a clear role in enhancing the monitoring level among banks, which in turn facilitates the reflection of their actual financial positions. Hence, H_3 and H_5 are rejected. In terms of control variables, large banks (BANK.SIZE) are engaged less in DLLP. This is most likely because such banks are subject to more public scrutiny, especially from external auditors and regulators. In contrast, banks with a high level of leverage (LEV) are found to be positively associated with discretionary decisions exercised by managers. Finally, return on assets (ROA) does not have a significant impact on the level of banks' DLLP.

6. Conclusion

The truthful bridge between banks' shareholders and their representatives may be attacked by managers' opportunistic behaviors that aim mainly to increase their gains and benefits at the expenses of their subordinates. Plus, banks' profits may appear as an attractive target for such managers to cover their failures or insufficiency in monitoring bank's activities. Therefore, a well-structured board of directors or the appearance of active owners in banks map of ownership are expected to provide a general umbrella for monitoring and controlling managers' decisions especially those around banks' profits. Indeed, bank managers are willing to manipulate a specific item of provisions called "**Loan Loss Provisions**" in a way that guarantees a smooth movement in stock prices which may reflect a stable investment plan for banks' boards. In addition, this study aims to explore the effective role of shareholders in the Jordanian listed banks in reducing the adoption of LLP techniques. Over a sample of listed banks in ASE between 2013 and 2018, this study found that foreign owners, institutional owners and, blockholders were holding a noticeable level of monitoring experience in constraining EM decisions within the Jordanian context. Indeed, such players in Jordanian banks' ownership map showed a restricted commitment toward their controlling tasks in reducing the board's opportunistic behaviors. A little more, they have acted as candid and unprejudiced representatives in directing bank's resources in which the gap in benefits expectations among bank's shareholders and board's members has been reduced significantly. In contrast, banks with a presence of managerial and family ownerships were less conservative in hindering the passage of EM techniques. This noticeable result is expected in such an emerging market, since both types may be fanatical owners in accepting the presence of a partnership between them and other owners. In other words, they were as oppositionists who refused to share their experience in establishing or monitoring the Jordanian banks with other owners without paying any expenses to maximize their wealth. Managerial and

family ownerships within this study presented contradictory findings to agency theory suggestions in which such owners are expected to enhance the transparency of financial statements by constraining EM actions. This result may support the argument which claims that emerging markets are classified under the umbrella of weak and ineffective laws and regulations needed to activate the monitoring tasks for such owners effectively. These conclusions explained the passive role of such owners since they may manipulate the flow of information or banks' earnings in a way that maximizes their personal interests instead of achieving the goals of the minority in banks' ownership map. Therefore, the results of this study are very important to different parties such investors, government and tax regulatory agency in Jordan, since it may send some signals that managers and family owners be in command of bank's policies in Jordan to pave the way to maximize their gains instead of increasing other shareholders' investments. Hence, expected investors, financial analysts and government should be aware of the prevalence of such practices within an important bulk of the Jordanian market to protect the financial resources for such a country that faces a scarcity in its natural and financial resources. In addition, the findings of this study may be useful to the Jordanian financial analysts since they devote a lot of effort in analyzing the share price in which they can have a clear image of shares' prices in the future. At the end, the results of this study would be an opportunity for the Jordanian government to adjust current regulations or legislate a new set of laws and regulations to reduce the levels of practicing EM which in turn may increase the government tax revenues to cover the shortage in its budgets.

Funding

The authors received no direct funding for this research.

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correction

This article has been republished with minor changes. These changes do not impact the academic content of the article.

Citation information

Cite this article as: The role of ownership map in constraining discretionary loan loss-provisions decisions in Jordanian banks, Alaa Mohammad AlQudah, Mohammad Jamal Azzam, Ayman Ahmad Abu Haija & Safaa Adnan AlSmedi, *Cogent Business & Management* (2020), 7: 1752604.

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