T.C.

ISTANBUL OKAN UNIVERSITY

INSTITUTE OF SOCIAL SCIENCES

IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF PALESTINIAN LISTED COMPANIES

AKRAM FATHİ HAMDAN

Doctoral Dissertation
Department of Business Administration
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Submission Date :

Presentation Date : 07-10-2021

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Abstract

Corporate governance is an important subject for firms' transparency and accountability and for financial performance. In Palestine, as in other countries, code of governance developed and implemented progressively. Corporate governance scholars have provided different results with respect to the impact of corporate governance on corporate financial performance.

This study investigated the level of the impact of corporate governance on firms' financial performance in Palestine. These relationships were examined for 40 out of 48 Palestinian listed firms in the Palestinian Exchanges Market through the period 2013 to 2019. Data collected from the firm's annual reports, firms' websites, and from Palestine Exchange Market. Panel data used to present the data and analyzed by multi-regression method technique.

After controlling the effects of leverage, firm age, firm size; the study found significant effects of public ownership and board independence variables on firms' financial performance, also partial significant impacts for the number of meetings on a firm's market value. In addition, there is no significant impact of ownership concentration, corporate and foreign ownership, number of board committees, audit committee independence, board composition, and CEO/Chairman duality on firms' financial performance.

In line with the reviewed literature, it is understood that corporate governance cannot explain the financial performance by itself, theretable 4- are many other factors affecting firms' performance. Corporate governance should help in firms' healthiest and stress for more accountability and transparency. Finally, it is understood that the impact of corporate governance cannot be explained with one single corporate governance theory.

ÖZET

Kurumsal yönetim, firmaların şeffaflığı ve hesap verebilirliği ile finansal performansı açısından önemli bir konudur. Filistin'de, diğer ülkelerde olduğu gibi, yönetişim kuralları aşamalı olarak geliştirildi ve uygulandı. Kurumsal yönetim bilim adamları, kurumsal yönetimin kurumsal finansal performans üzerindeki etkisine ilişkin olarak farklı sonuçlar ortaya koymuşlardır.

Bu çalışma, kurumsal yönetimin Filistin'deki firmaların finansal performansı üzerindeki etkisinin seviyesini araştırdı. Bu ilişkiler, 2013-2019 dönemi boyunca Filistin Borsası Piyasasında listelenen 48 Filistinli firmadan 40'ı için incelendi. Veriler firmanın yıllık raporlarından, firmaların web sitelerinden ve Filistin Borsası'ndan toplandı. Verileri sunmak için kullanılan ve çoklu regresyonla analiz edilen panel veriler.

Kaldıraç, firma yaşı, firma büyüklüğünün etkileri kontrol edildikten sonra; Çalışma, kamu mülkiyeti ve yönetim kurulu bağımsızlığı değişkenlerinin firmaların finansal performansı üzerinde önemli etkileri bulmuştur. Çalışma ayrıca, bir firmanın piyasa değeri üzerinde toplantı sayısı için kısmi önemli etkiler buldu.

Çalışma, sahiplik konsantrasyonunun, kurumsal ve yabancı mülkiyetin, yönetim kurulu komitelerinin sayısının, denetim komitesinin bağımsızlığının, yönetim kurulu kompozisyonunun ve CEO/Başkan ikiliğinin firmaların finansal performansı üzerinde önemli bir etkisinin olmadığını buldu.

İncelenen literatür doğrultusunda kurumsal yönetimin finansal performansı tek başına açıklayamayacağı, firmaların performansını etkileyen daha birçok faktörün olduğu anlaşılmaktadır. Kurumsal yönetim, firmaların daha fazla hesap verebilirlik ve şeffaflık için en sağlıklı ve stresli olmalarına yardımcı olmalıdır. Son olarak, kurumsal yönetimin etkisinin tek bir kurumsal yönetim teorisi ile açıklanamayacağı anlaşılmaktadır.

Dedication

I would like to dedicate this thesis to the soul of my father, to my mother. To my beloved wife and to my kids who supported me more than anyone in the world, without them I could not move one step ahead.

I also dedicate this thesis to my big family, especially, brothers, sisters, uncles, aunts, cousins. For everyone, thank you very much for your support and encouragement.

Acknowledgements

First and foremost, all thanks to my god for helping to finish this important objective in my life.

Deep, warm, and deepest gratitude to my thesis advisor Associate. Prof. Dr. Murat Bolelli. His encouragement, comments, and guidance helped me not only to achieve a higher standard in my Ph.D. process but also led me to mature personally and professionally as well. He always encouraged me to read and enrich my thesis; he encouraged me to consider this thesis as a motive for my future.

I am very grateful to Prof. Dr. Atilla Dicle. He taught us two courses but for me, he was building my future. I listened to his words carefully. I highly respect his calm, presence, and high level of education and experience. For me I proud of knowing him.

Deep thanks to Prof. Dr. Erdinç Telatar, I remember a short meeting when I joined the university, his smile and encouraging words that day told me that I am on the right track.

Many thanks to Prof. Dr. Beril Durmuş, She was supportive during this thesis, she is so cooperative.

Deep thanks to Prof. Dr. Huseyin Tastan, he taught us an interesting course, we learned much from him. His knowledge and support during the courses and the thesis were so tangible.

Deep thanks to Prof. Dr. Murat Donduran, our instructor for two courses, high knowledge, and so humble person, he supported us in all fields.

To Faculty and Administration of Okan Istanbul University, Many thanks for your support, for me and for my colleagues.

Many Thanks to Mr. Thamin Kayed from Palestine Exchange Market; He gives high support for some data from the Palestinian Exchange Market.

My lovely wife, Lina, stands beside me, supported me in every moment, Thanks to you. Thanks to my Kids, Nada, Nagham, Shorouq, Basma, Mohammad, and Omar. For my lovely family, this our Ph.D., you all deserve to have Dr. before your names. I

traveled away from you for a whole year in Turkey, also when I returned I was so busy writing the thesis, as a husband and a father I cut much time from you.

Many Thanks For HE, Maher Al Masri, For Mr. Ahmad Awaidah, For Mr. Mohammad Al Amoor, For Mr. Iyad Masrouji, for Dr. Lina Swaiti, for D. Atef Alawaneh and for r. Nasr Abed Al Kareem for their time and valuable enrichment.

Thank you all

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List of Abbreviations

PEX	Palestine Exchange Market
PMA	Palestinian Monetary Authority
PCMA	Palestinian Capital Markey Authority
PNA	Palestinian National Authority
OECD	Organisation for Co-Operation and Economic Development
PA	Palestinian Authority (State of Palestine)
ROA	Return on Assets
ROE	Return on Equity
CGNC	Corporate Governance National Committee
WB	World Bank
IMF	International Monetary Fund
NCG	National Committee for Governance
NED	Non-Executive Directors
USA	United States of America
UK	United Kingdom
CEO	Chief Executive Officer
VIF	Variance Inflation Factor
SEC	Securities Exchange Commission
FCPA	Foreign Corrupt Practices Act
ISS	Institutional Shareholder Services

CHAPTER ONE: INTRODUCTION

1.1 Overview

For a long time, Palestine faces different political situations, which results to an unstable environment; economy intrinsically needs empowerment, a healthy and suitable environment also needed, where shareholders' rights are protected and firms have transparent managements. Globalization broke the borders and made a free movement of capital, this new environment and dramatic changes in business models made it important for firms, managers, and all stakeholders to have special principles and guidelines to protect the rights of everyone especially investors and shareholders. Investors believed that firms with good corporate governance will provide more reliability and worth investment (Oncioiu et al., 2020). These changes and the new business environment induced OECD, IMF, WB to maintain capital security (Mamun, Yasser, & Rahman, 2013; Tigrel, 2014). Organization for Economic Co-operation and Development (OECD) insisted that implementing corporate governance will help in making firms more transparent in information disclosure, fair and accountable to shareholders, and responsible for all stakeholders (OECD, 2004).

The current versions of different codes of governance for many countries have evolved as a response to changes in the market and laws, but it still focus on the main objectives of protecting shareholder rights, transparency, and accountability through credible governance practices (Denis & McConnell, 2003).

Corporate governance has attracted attention in mid-eighties. The initial efforts started by Anglo-American codes of good corporate governance, like the Cadbury[1] Code (1992) in the U.K. and the Principles and Recommendations of the American Law Institute (1984) and the Treadway Commission (1987) in the U.S (Berghe, 2002).

Corporate governance evolved in the last decades; it encompasses many issues like board structure, management authority, internal control, and other aspects. It also

---

[1] Sir Adrian Cadbury chaired a committee which originated the Report of the Committee on the Financial Aspects of Corporate Governance in 1992, and the Report included a Code of Best Practice, which was known as the 'Cadbury Code' (Shen, 2010).

entails the planning and strategy of the company (El-Nabi, 2016). The term "corporate governance" has been used since the mid-1990s (Krambia-kapardis & Psaros, 2006; OECD, 2004). In The United Kingdom's (UK) corporate governance is defined as "the system by which companies are directed and controlled" as noted in Cadbury's report (Cadbury, 1992).

Good corporate governance has an important impact on attracting new investors, especially international investors (P. R. Bhatt & Bhatt, 2017). For investors, corporate governance represents the guidelines and legislations issued by the government to ensure that organizations operate in a healthy environment to protect them. Studies show that there is an important relationship between organizations corporate governance and financial return; there is an endogenous positive relationship between corporate governance and organizations performance (Arora & Sharma, 2016; Çiftçi, 2016; Darweesh, 2015; Kowalewski, 2016).

Hilb (2021) and Belén & O. Idowu (2018) pointed that there were corporate scandals that have taken place around the world; they added that best-practices for corporate governance guidelines have been developed. Saatci (2011) and Jen (2014) asserted that changes occurred in corporate governance regulations regarding the coordination between management, boards, and shareholders; Saatci stated that different reports were adapted, in UK, The Cadbury Report (1992), the Greenbury Report (1995), the Hampel Report (1998) and finally the Combined Code (1998).

Theories developed about the corporate governance discussing the conflict of interest between board and management or cooperation between them; Saatci (2011) pointed that the most dominant ones are, agency, Stewardship and resource/service theory; while Bonna (2012) and Çiftçi (2016) added Stakeholder Theory. This research contain illustration about the four mentioned theories.

The Agency theory has been by far the dominant paradigm in the literature on corporate governance; it is about the agency problem between management and shareholders (Anderson & Melanson, 2007; Darweesh, 2015; Fama & Jensen, 1983b), the problem arise when the management (agent) has goals that conflicts with shareholders (principal) goals. The Stewardship theory show different situation as the board collaborate with management, the board support and empower management to enhance firms goals (Çiftçi, 2016; Darweesh, 2015)

This research intends to investigate, analyze, and discuss the impact of the corporate governance implementation on selected Palestinian companies in the Palestinian Exchange (PEX). There are articles discussed this issue globally, but in Palestine, there is no recent detailed researches. This research will go through different corporate governance issues like definition, principles and will investigate corporate governance implementation in Palestine. The results for this research may be good reference for firms to enhance their level of corporate governance and may help them to operate with good practices and achieve better financial performance.

The main objective of this research is to analyze the impact of implementing corporate governance on the financial performance of the selected Palestinian companies. Results may help firms to act and achieve better performance by adhering to the code of corporate governance. The research will focus on Palestinian listed companies in the PEX.

Data collection was a big challenge and took long time, data collected from different sources (firms', PEX and PCMA websites). Firms' annual reports were the main data source, different studies considered annual reports are valid and audited by accredited audit agencies and the included information are considered sensitive, because wrong information will affect firms' reputation (Bonna, 2012; Çiftçi, 2016; Darweesh, 2015; Feneir, 2019; W. Li, Zheng, Zhang, & Cui, 2020; Pava & Krausz, 1996).

Palestine is one of the developing countries in the MENA region; this research result might be a good benefit and enrich literature about corporate governance in MENA region and for other areas. Financial performance indicators used to measure firms performance and analyzed to the corporate governance implementation in the listed companies, a good corporate governance will impact the financial performance, it helps in maximizing firms funds and increase firm revenue and reputation (Al-Matari, Al-Swidi, & Fadzil, 2014; Darweesh, 2015).

1.2 Statement of the problem

The Political and economic situation in Palestine is complicated and considered unstable due to external effects which add more challenges to companies in Palestine to operate and to attract new investors (Abdelkarim & Ijbara, 2010). In different countries, corporate governance adherence shows a positive impact on attaining better financial results and in acquiring new investors, and minimizing risks (Bonna, 2012; Darweesh, 2015).

The research will investigate, explore, and analyze the impact of corporate governance on firms' financial performance and may help firms to comply with corporate governance principles.

The problem statement is:

What is the impact of corporate governance on financial performance of Selected Palestinian companies?

1.3 Purpose of the Study

To investigate and describe corporate governance attributes for selected companies in Palestinian stock exchange and show the impact of firms' governance on financial performance.

To examine a quantitative relationship between corporate governance variables and their impacts on firms' financial performance as measured by ROA, ROE and Tobin's Q.

1.4 Importance of the research

This research intends to investigate and discuss the corporate governance variables and show their impact on financial performance. Those variables selected according to in-depth literature review and data availability.

Results and discussion may enrich the literature and be one of the academic references about analyzing the impact of corporate governance on firms' financial performance.

1.5 Significance of the study

This research is considered as the first in-depth research that analyzed and investigated the impact of corporate governance on the financial performance of the Palestinian selected companies; it analyzed the impact of many corporate governance variables on different financial indicators. Studies show different practices for corporate governance across different countries as there are different approved codes for corporate governance (P. R. Bhatt & Bhatt, 2017). Black (2001) found that corporate governance does not influence company performance or it has a minor effect on the market value. Studies show that some corporate governance attributes have negative impact on firm performance or has no impact; Daraghma (2010) concluded that board size has negative impact; Darweesh (2015) and Puni (2015) found that number of board committees has no impact on firm performance.

This research considered significant and importance for key stakeholders, especially for the shareholders who have interest in strategic and tactical decisions; the adherence to corporate governance protected shareholders' rights and may help top management to accomplish firms goals; in addition corporate governance is important to create shareholders value (Gunarsih, Setiyono, Sayekti, & Novak, 2018).

1.6 Research objective

Main objectives for this research are:

- Investigate the impact of corporate governance on financial performance of selected Palestinian companies.
- To examine the level of influence for selected corporate governance variables on firms financial performance.

1.7 Research Questions

This research intends to answer the main question “what is the Impact of Cooperate Governance on Financial performance of selected Palestinian Companies?”

Other questions are:

- Is there an impact of ownership concentration on financial performance?
- Is there an impact of public ownership structure on financial performance?
- Is there an impact of corporate ownership on financial performance?
- Is there an impact of foreign ownership on financial performance?
- Is there an impact of board size on financial performance?
- Is there an impact of family-controlled board membership on financial performance?
- Is there an impact of the number board committees on financial performance?
- Is there an impact of busy board on financial performance?
- Is there an impact of audit committee independence on financial performance?
- Is there an impact of board composition on financial performance?
- Is there an impact of board independence on financial performance?
- Is there an impact of the number of board meetings on financial performance?
- Is there an impact of board gender diversity on financial performance?
- Is there an impact of the Duality of CEO and chairman on financial performance?

1.8 Assumptions

It is important to understand the underlying assumptions within this research.

- Data from annual reports are valid and accurate because it is verified by accredited auditing agencies.
- Data provided from PEX is healthy.
- Annual reports for the selected firms contained the needed data for the period of this research.
- Interviewees are aware of corporate governance and its impact on firms financial performance.

1.9 Limitations

Code of governance in Palestine issued in 2009 (CGNA, 2009), is still under implementation. Until the year 2019, there is no announced date for official implementation. Palestinian Capital Markey Authority (PCMA) circulated the code of governance in 2009 and encouraged all companies to implement it. PCMA measured the level of governance adherence for companies but did not announce the results. This limitation makes it hard to know the current used methodology, because the measurement in this research might not be as the one used by PCMA.

In Palestine, companies are implementing corporate governance gradually, which may result in missing data in their annual reports; Also PEX and firms' websites does not have all firms corporate governance data. This study inspected different independent variables that are part of evaluating the corporate governance level. There were missing data for different years, so the sample period is limited to 2013-2019; also eight firms were excluded from the sample period because of missing data in the sample period.

In Palestine, there is no disclosed assessment for the listed firms and there is no governance index in Palestine; and so corporate index is not included as one of the corporate governance assessment variables.

The research is limited to the following corporate governance variables due to data availability:

- Ownership Concentration,
- Public Ownership
- Corporate Ownership
- Foreign Ownership
- Board Size
- Family-controlled board membership
- Number of Board Committees
- Busy Board
- Audit Committee Independence
- Board composition
- Board Independence
- Number of meetings
- Board gender diversity
- Duality of CEO and Chairman

CHAPTER TWO: LITRERATURE REVIEW

2.1 Corporate Governance

The words of “corporate governance” were originated from ancient Greek and Latin. **C*orporate*** derived from the Latin word “*corpus”* which means body or group of people in one body. **G*overnance*** derived from the Latinized Greek word “*gubernatio”* which means management or government (Clarke, 2007).

Definition of corporate governance differs from one country to another, it is influenced by geographical boundaries and economic models, so there are different governance models, as the model represent the structure and the process embodied in a country regulations (Berghe, 2002; P. R. Bhatt & Bhatt, 2017; Çiftçi, 2016; Heenetigala, 2011).

The UK Corporate Governance Code defines the concept, as “Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies” and the purpose of governance is to facilitate effective, entrepreneurial, and prudent management that can deliver the long-term success of the company (Financial Reporting Council, 2016). Corporate governance is about separation between ownership and control, this separation translated as a set of mechanisms that influence the decision making (Larcker, Richardson, & Tuna, 2007)

Firms’ corporate governance is not only for facing crises but also for enhancing performance. Studies show that there is a positive link between good corporate governance and firm performance (Black, 2001; M. E. Brown & Treviño, 2006). Mitton argued that a greater effect of corporate governance practices likely to be in emerging markets (Mitton, 2002). According to (Arora & Sharma, 2016) there is an important relationship between an organization corporate governance and financial return. There is an endogenous positive relationship between corporate governance and organization performance, especially in the last two decades, also weak corporate governance show less performance and profitability (Kowalewski, 2016).

Vallabhaneni, Cbm, & Cabm (2008) mentioned that there is no one standard definition for corporate governance, they noted “it can broadly be understood to refer to the system by which companies are directed and controlled, including the roles of the board of directors, management, shareholders, and other stakeholders”.

Corporate governance is viewed as an interaction between three groups as shown in Figure 2-1: the shareholders, the top management, and the board of directors (Gerde, Silva, & White, 2002) it preserves the rights of all parts and arranges relations between them.

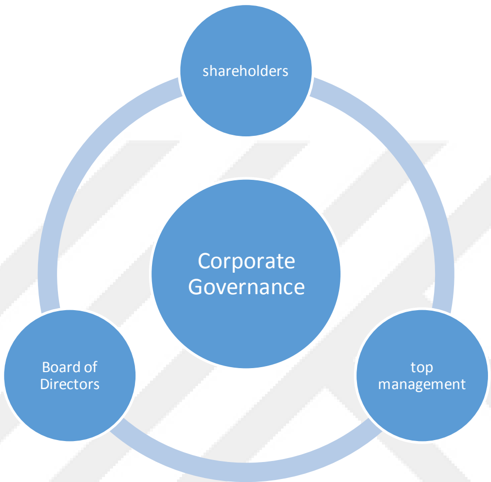

Figure 2-1: Corporate governance as an interaction between the three groups

One of the generally accepted definitions that have been cited in many publications is the definition made by the Organization For Economic Co-Operation and Development (OECD) (OECD, 2004) which can be summarized as “corporate governance is a system to organize the relationships between different stakeholders, and manage control activities to overcome conflicts of interest among stakeholders”.

Corporate Governance is important to align interests for multiple stakeholder (community, individuals ..) in a balanced way. The corporate governance framework stress for accountability, transparency, and effective use of different resources; the aim is to align as possible the interests of individuals, corporations and society (Cadbury, 1992; Clarke, 2007).

The World Bank (WB) give high concern to balance between economic and social goals and also between individual and communal goals; the WB encourage the equal use of resources and align it as possible to the interest of different stakeholders (Cadbury, 2000).

Mallin (2013) pointed that different reasons makes corporate governance important for companies, some of those reasons are:

- It helps to have an appropriate control system.
- It helps to prevent authority obsession, as no single one have much power.
- It is concerned with relationship and interests of different stakeholders.
- It encourages transparency and accountability

Corporate governance is about efficient and effective allocation of resources in organizations to comply with international corporate standards, so they keep the balance between the interest of owners and their social environment (Cromme, 2005; Strange, Filatotchev, Buck, & Wright, 2009). According` to Siebens (2002) corporate governance is about knowledge and art to balance between the interest of stakeholders by making the right decisions to achieve goals taking into consideration all needed and available information.

Perek (2009) noted that corporate governance can be understood as a set of processes, customs, policies, and institutions that are used to administer, control, and to direct a corporation. Perek Added that it also involves the coordination and cooperation between different parts in or organization who are mangers, board of directors and the owners.

Historically corporate governance concept has started with guidelines about corporate governance developed by large international companies like General Motors (Berghe, 2002); it encompasses variables like board structure, management authority, internal control, and other aspects. It also entails the planning and strategy of the company (Krambia-kapardis & Psaros, 2006).

Researches in the field of corporate governance have evolved over the last three decades; it pointed that corporate governance is represented by some main aspects like board structures, CEO and Chair features, and executive compensation (Belén & O. Idowu, 2018).

Many companies collapsed in the last global financial crisis in 2008; this situation increased attention to corporate governance and made it as one of the intrinsic issues in the countries and companies to preserve economy stability (Bae, Baek, Kang, & Liu, 2012; Çiftçi, 2016; Kowalewski, 2016).

2.2 Evolution of Corporate Governance

For long time corporate governance exists but not with organized regulations, intensive efforts to issue codes and regulations started after the collapse of big companies in USA and in other countries, the main concerns were firms transparency and accountability, so the financial reports would be accurate and no need for restatements and frauds (Kaur, 2018).

Adam Smith mentioned in "The Wealth of Nations" book in 1776 issues, that can be considered as part corporate governance, He pointed that managers are expected to manage other companies like their own (Grant, 2003).

The conflict of interest between directors, who represent the shareholders, and management, who run the companies; require separation of roles and responsibilities and add more control over the firms from the board of directors. This separation between ownership and control of a corporation through expanded ownership of the company creates what Berle and Means call the quasi-public corporation (Berle & Means, 1932). Grant (2003) pointed that during 1880 and1930 ownership structure faced some changes in different industrial factories, public ownership evolved from private ownership.

The changes in ownership structure led to changes in firms' control where board and management acts with different roles. After 1929, there were the great depression, when the US market fall down, the corporate governance as a concept was highlighted by Adolf Berle and Gardiner in their book "The Modern Corporation and Private Property " discussed issues like the role of audit in a corporation (Berle & Means, 1932). Efforts increased after the financial crises in 1929 and the origin laws of corporate governance been set (Cadbury, 2000). The US congress passed two legislations that serve as the cornerstone of US. Securities laws; securities act of 1933 and securities exchange act of 1934, the major goals for those acts were ensuring transparency for financial reports and state laws again any faked information or fraudulent activities in the securities markets (Lessambo, 2014).

In 1934 and 1938 there were two acts, the Securities Exchange Act of 1934 and the Maloney Act, these acts issued to ensure investors protection , the Securities Exchange Commission (SEC) created to regulate the market by continues disclosure and prevention of frauds (Ingley & Walt, 2004).

In 1977 the USA congress issued the Foreign Corrupt Practices Act (FCPA) to adjust the foreign investors policy problem to interdict bribery of foreign officials by US business interests and prevent improper payments, these acts were updated in 1989 and 1994 to internationalize anti-bribery rules(Lessambo, 2014). Cuervo-cazurra & Aguilera (2004) said that the United States was the first country who issued corporate governance regulations in 1978. While Adolf Berle and Gardiner pointed that the term Corporate governance was not discussed as a system, Bob Tricker who did that in 1984, and he is the first one who used the term corporate governance (Brennan, 2010).

Eisenhardt (1989) discussed the agency problem in the concept of the separation of ownership (shareholders) and control (management). Since control is in the hands of managers who act as agents on behalf of the shareholders, the problem is that the management (agent) may work for the interest of themselves regardless the impact of that on the company (Owners).

In the 1990s there were different efforts to build a framework for analyzing the board activities and functions which is considered as part of corporate governance, Fred Hilmer and Bob Tricker in 1994 developed the first framework for board function (Figure 2-2), this framework help boards to check for firms current and future activities (Clarke, 2007).

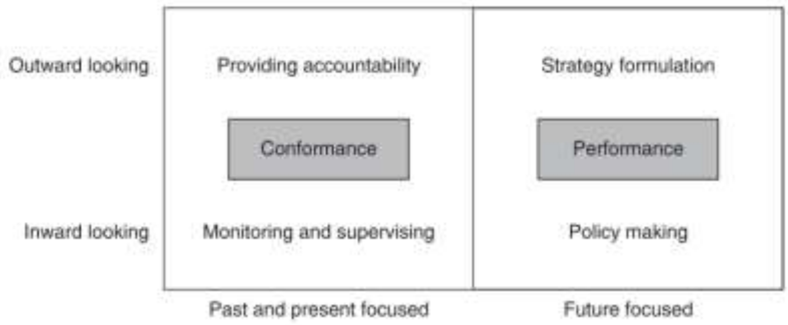

Figure 2-2: Framework analyzing board activities.

Source: Hilmer, F. and Tricker, R.I. (1991), An Effective Board, Company Director's Manual, Sydney: Athol Yeomans, Pearson/Prentice Hall.

In the mid 1990s, concern increased for corporate governance as it is important for countries development and markets stability. governance considered important to develop countries, they were encouraged to implement best governance practices; following different crises, the development of corporate governance show better progress, countries worked to develop their codes; by mid of 2008 there were about 65 country have issued their code of governance (Aguilera & Cuervo-cazurra, 2009). Figure 2-3 show the Worldwide Creation of Codes of Good Governance by Transnational Institutions, 1995–Middle of 2008.

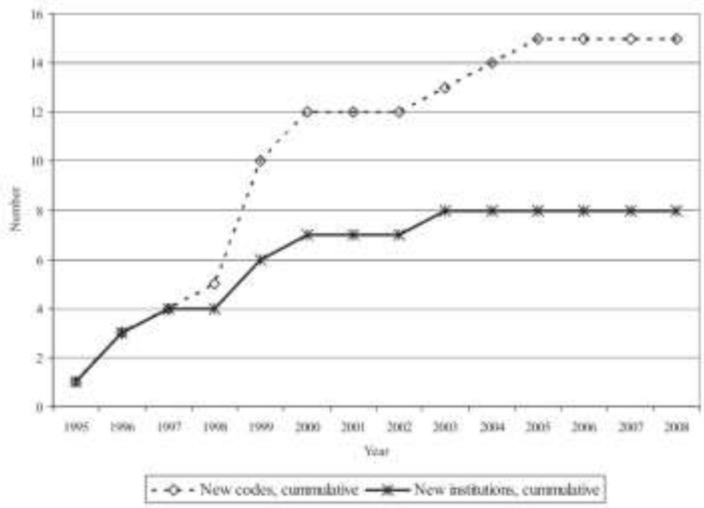

Figure 2-3:Worldwide Creation of Codes of Good Governance by Transnational Institutions, 1995–Middle of 2008 (Aguilera & Cuervo-cazurra, 2009).

Enron, The greatest exponent of earnings manipulation, a company started with gas pipeline business in 1990s, Enron consider itself as 'America's greatest corporation, it was listed in the seventh place in USA with more than $100 billion revenue(Clarke, 2007). Enron began developing off balance sheet entities to hide debt and inflate earnings; starting October 2001 series of major earnings restatements by Enron; finally largest bankruptcy in America announced (Clarke, 2007; Kaur, 2018).

WorldCom became one of the largest telecoms companies in the USA in the late 1990s, the company achieved its big target by announcing $129 billion merge with Sprint Corporation; but in June 2002 the internal audit department uncovered $3.8 billion of fraud (Clarke, 2007). By the end of 2002 WorldCom needed to restate $9 billion of reporting errors and finally collapsed; this late error detections and fake reporting were due to poor auditing (Clarke, 2007; Leung, Cooper, & Robertson, 2003).

Mallin (2013) pointed that there were different reasons to give corporate governance more concern, reasons like The global financial crisis, the public concern over the apparent lack of effective boards and perceived excessive executive remuneration packages. In early 2000s there were different scandals , like Enron, WorldCom, Tyco, and others, led to more concern to improve corporate governance (Bhagat & Bolton, 2013; Bravo-urquiza & Moreno-ureba, 2021; Mulherin, 2005). There were different scandals around the world, in USA (Enron and WorldCom), in Canada (Nortel and Crocus), in the European Union (Parmalat and Royal Ahold), in Malaysia (Renong), in Australia (HIH Insurance); These scandals makes corporate governance an important concern for investors and judgment for firms transparency, the investors feels protected with governanced companies (Ho & Wong, 2001).

In 1999, thirty five countries had ratified the OECD convention and approved legislations to implement the convention in USA, the OECD developed the "Principles of Corporate Governance" to assist countries in evaluating and improving "the legal, institutional and regulatory framework for corporate governance" and to "provide guidance and suggestions" for various stakeholders in corporate governance (Lessambo, 2014). The principles insists on protecting shareholders by applying transparency, accountability and responsibility.

After the scandals in USA in early 2000 management become under review more and more, it was clear that managements were focus on their pay-offs and profit maximization, this is not the role of healthy companies which push efforts forward to develop regulations and so corporate governance become the focus (Abdelkarim & Ijbara, 2010; Demise, Miwa, Nakabayashi, & Nakoshi, 2006).

In 2002, the US congress passed the Sarbanes- Oxley Act (“Sarbanes-Oxley) as a result to recent corporate accounting and fraud scandals, the Sarbanes Oxley aims to enhance corporate governance by enhancing the internal audit and corporate accountability (Duh, 2017). Sarbanes Oxley requires companies to perform a risk assessment to support the integrity of corporate financial information by updating the information security (Lessambo, 2014). Much more comprehensive regulation being introduced by Sarbanes-Oxley, it contain reference for good corporate reference and guides for audit independence, the Sarbanes–Oxley contain requirement for chief executive officers (CEOs) and chief finance officers to do a periodic financial disclosure to sustain healthy situation for companies (Mallin, 2013).

United Kingdom (UK) is the one of the major contributors in the development of corporate governance, UK concern about the separation of ownership and control, there were huge base of investors (firms, and people), Mallin (2013) pointed that the UK market is concerned with some agency problems, like control and accountability. The need corporate governance in UK ,especially to add more control over management, it was due to different scandals in late 1980s and early1990s like BCCI bank Robert Maxwell pension funds (Rashid, 2018; Reed, 2002). The Development of corporate governance in UK moves through different reports: the Cadbury Report (1992), the Greenbury Report (1995), and the Hampel Report (1998) (Council, 2006).

For years and especially after OECD 1999 Corporate governance has more concern in different countries , they prepared their codes of corporate governance, for example, in Turkey 2011 (Çiftçi, 2016) , Jordan 2006 (Marashdeh, 2014), in Unitd Arab Emirates 2004 (Shehata, 2015), Romania 2000 (Hermes, Postma, & Zivkov, 2007). These codes and efforts by different regulators did not prevent from big collapses as codes where not compulsory, the ignorance of codes implementation results in different scandals in USA and other countries.

2.3 Importance of Corporate Governance

Corporate governance is one of the most popular topics in last years, it got the attention of business and academic research, especially after the scandals and financial crises, different studies analyzed the impact of corporate governance on firms performance (Dincer & Dincer, 2013). Investors show more concern about firms adherence to corporate governance, hey believe that this would be an indicator for the level of corporate health (Abdelkarim & Abusharbeh, 2016).

Corporate governance practices allow companies to access stock markets on better terms and can maximize the firm’s market value (T. O’Connor, Kinsella, & O’Sullivan, 2014).

Saatci (2011) said that emerging markets ignored the important of corporate governance, in general, these markets consist of small firms, which are not listed in the market, firms are family-owned, and are not interested in attracting new investors. Abdelkarim & Abusharbeh (2016) did not conflict with Saatci but he pointed that the listed companies in the emerging markets are aware of good corporate governance, so firms can attract more investors especially foreigners.

Corporate governance help in attracting new investors and firms expansion to other countries. Governance is important to the firms’ values, it plays an important role to shape up companies and enhance their abilities for globalization and increase chances for new shareholders (Black, 2001; Cremers & Nair, 2005; Ehikioya, 2009; Iwasaki, 2008).

Good corporate governance has an important impact on attracting new investors, especially international ones (P. R. Bhatt & Bhatt, 2017). For investors corporate governance represent the guidelines and legislation issued by the government to ensure that organizations operate in a healthy environment to protect them.

Good corporate governance got the attention of investors especially foreigners; regarding the country-level of governance; because companies with good governance level show better stock price and financial performance (T. O’Connor et al., 2014).

Berghe (2002) pointed that corporate governance has an important impact on achieving firms' goals, by helping them to set priorities and achieve goals according to organization strategy and board interests. Al-azzam (2015) added that a well-governed firm would operate in a well control environment with efficient and transparent reporting; good corporate governance is not just about solving the agency problem but also to serve all stakeholders and provide the framework to manage the execution of firms' strategic goals and protecting owners' rights

Good corporate governance promotes firm efficiency and investors return, moreover it can help firms through better flow of funds and improved access to low cost capital, firms also can achieve better credit ratings which would lead to lower debt funding and higher share price (Heenetigala, 2011).

Good corporate governance help in raising the country credit rating with different external rating agencies for countries looking for external foreign investors, the rating play a major role in foreign investors decisions for investment and comeback for the benefit of firms (Çiftçi, 2016)

2.4 Corporate Governance Theories

Adam Smith's book "Wealth of Nations" in 1776 was one of the first governance contributors; he asserted that when a firm is controlled by a number of people or a group of individuals rather than the owner of the firm, principal's (shareholder or owner) objectives are highly likely to be diluted rather than ideally achieved (Mamun et al., 2013). Denis & McConnell (2003) pointed that Adam Smith mentioned in his book (1776): "when ownership and control of corporations are not coincident, there is potential for conflicts of interest between owners and controllers". His sentence is an important input for corporate governance theories development.

The development of corporate governance is a global concern in a complex environments, including legal, cultural, ownership, and other structural differences (Heenetigala, 2011). Each country might have different corporate governance code and regulations, relevant to different situations depending on what stage an individual country is in (Perek, 2009)

Given that many disciplines have influenced the development of corporate governance, the theories that have affected it are varied. Table 2.1 show summary of some of the theories that are associated with the development of corporate governance (Mallin, 2013).

Table 2-1: Corporate Governance Theories

Theory	Summary
Agency Theory	Agency theory identifies the agency relationship where one party (the principal) delegates work to another party (the agent). In the context of a corporation, the owners are the principal and the directors are the agent.
Transaction cost Economics Theory	Transaction cost economics views the firm itself as a governance structure[2]. The choice of an appropriate governance structure can help align the interests of directors and shareholders.
Stakeholder Theory	Stakeholder theory takes account of a wider group of constituents rather than focusing on shareholders. Where there is an emphasis on stakeholders, the governance structure of the company may provide for some direct representation of the stakeholder groups.
Stewardship Theory	Directors are regarded as the stewards of the company's assets and will be predisposed to act in the best interests of the shareholders
Managerial Hegemony Theory	Directors view themselves as an elite at the top of the company and will recruit/promote to new director appointments taking into account how well new appointments might fit into that elite
Path dependence Theory	Path dependence may be structure driven and rule driven; corporate structures depend on the structures with which an economy start. It occurs when a firm will continue a process in a known path instead of going in new one
Resource dependence Theory	Directors can connect the company to the needed resources to achieve corporate objectives
Institutional	The institutional environment influences societal beliefs and practices that impact on various 'actors' within society.
Political Theory	Political theory has a significant influence on different ownership and governance structures.
Network governance Theory	A structure of network governance allows for superior risk management.

Source: Mallin, C. A. (2013). *Corporate Governance* (Forth). Oxford University Press

[2] The theory suggests that each type of transaction produces coordination costs of monitoring, controlling, and managing transactions (Williamson, 1979)

The theoretical perspective of corporate governance influenced by several theories over time to explore the relationship between corporate governance practices and firms' performance. Studies discussed different theories, Darweesh (2015) discussed Agency theory, Stakeholder theory and Stewardship theory. Saatci (2011) and Çiftçi (2016) mentioned that Agency, Resource Dependence and Stewardship theories are building blocks of corporate governance literature. (Perek, 2009) discussed briefly agency, stewardship, resource dependence and stakeholder theories.

Contributions and combination from different theories helped to establish a foundation for the needed model of corporate governance; one theory cannot cover all issues. For example agency theory covers the Principal and agent problem, while stakeholder theory address the social relationships with different stakeholders (Mamun et al., 2013)

In this research, the following theories will be briefly discussed: Agency theory, Stewardship Theory, Resource dependency theory and stakeholder theory. These theories contributes the most in corporate governance, and discussed in different publications (Çiftçi, 2016; Darweesh, 2015; Perek, 2009; Saatci, 2011).

2.4.1 Agency Theory

The paper of Berle and Means (1932) is the origin of the agency theory, they focused on the separation between ownership and control in firms (Lei, 2006). While Eisenhardt (1989) pointed that with no separation the risk will be shared. The separation result in principal-agent problems in the modern corporation (Heenetigala, 2011). Agency theory is defined as “the relationship between the principles, such as shareholders and agents such as the company executives and managers” (H. Abdullah & Valentine, 2009). The separation between agent and principal make the board of directors also delegates certain duties to management, like financial reporting tasks, and delegate auditing to another audit committees and external auditors (Mohammed, Sanusi, & Alsudairi, 2017).

Agents assigned by the shareholders (principal) and they are expected to act in the best interests of the principal. Kaur (2018) assumes that agents own a very small amount of shares, this might results in a possible conflict of interests between agents and principles, the agent aims for increase his/her financial benefits while the principle objective is wealth maximization.

Agency theory assumes that the CEO and the chairman should be filled by different individuals to protect shareholder's interests (Mamun et al., 2013). The theory explains the relationship "The contract" between business principles and their agents. Agents are decision-makers on behalf of owners, that relationship is the one between shareholders, as principles, and company management, as agents (Eisenhardt, 1989; Jensen & Meckling, 1976; Kaur, 2018). Hard (1995) said that the separation creates conflict of interest between stakeholders and the cost of the transaction become an agency problem if it is not handled through contracts between principal and agent.

Agency theory is concerned with aligning the interests of owners and managers based on the assumption that there is a conflict of interest between the two parties (Bendickson, Muldoon, Liguori, & Davis, 2016). Control problem arises because each part has different concern; and considered expensive because it may needs a lot of efforts and budget. The second problem is the management of risks; as each part may have a different attitude towards risk management and sharing; each part may consider a different approach to manage risks; which will show conflict between the two parts (Eisenhardt, 1989).

Mallin (2013) pointed the agent-principle paradigm may result in some issues, the agent may misuse his/her power for pecuniary. The agent may not consider appropriate risks in acting according to the principal's interests and may have different view of risks. Another issue is about information difference between agent and principle due to different source.

Agency problem arise when shareholders care for maximize the firm profits and minimize the cost without care to the result of firms' activities regardless of the cost of their transactions and decisions. Anderson & Melanson (2007) added that the agency problem arises when CEOs become self-interest and care for their pay-off regardless the firm financial situation.

Agency cost incurred due conflict of interest between principal and agent (Brickley et al., 1997). It is the cost paid by shareholders (principal) to protect firms from bad behavior and/or fraud from the management (agent) by doing the needed monitoring and controlling (Marashdeh, 2014). Jensen & Meckling (1976) define agency costs: the sum of monitoring expenditure by the principal to limit the aberrant activities of the agent. (Marashdeh, 2014). Jensen & Meckling (1976) added that agents might work for their own benefit instead of the firm's value resulting in agency cost; agents may lower operational performance, higher pay for managers.

Boards have the power to assign or fire and compensate managers who are the agents; also the board monitor important decisions taken by the management (Denis & McConnell, 2003; Fama & Jensen, 1983a).

Agency theory assumes that managers are more likely work for their benefits by focusing on short-term goals rather than caring of owners' interests who concern with long-term companies goals. This may lead to conflict of interest between the two parts and result in financial underperformance and increased financial distress in modern corporations (Bonna, 2012).

The financial position of the company affected when there is a conflict of interest between of principal and management, there should be enough efforts to resolve this conflict by different governance mechanisms (Bendickson et al., 2016).

Organizing the relationship between principal and agent arranged through contract(s), if a contract does not include all job details and control process for accomplished and running tasks then gaps and conflicts arise between the two parts and may affect firms' performance (Eisenhardt, 1989).

Corporate managers tend to take excessive risks to improve short-term financial performance contrary to the long-term survival of the corporation. Managers look for short-term accomplishments and financial return to endure long contracts with the company and avoid their contract termination (Mccolgan, 2001). The management approach for short-term accomplishments may also lead to use subjective accounting practices to manipulate earnings before contact due date in an attempt to maximize performance-based bonuses (Healy, 1985)

Companies with week corporate governance have greater agency problems, in contrast to those with good governance and clear authorities, there is a balance between the interest of both parts(Core, Holthausen, & Larcker, 1999)

M. O'Connor & Rafferty (2012) discussed another management behavior; he pointed that management's wealth in the form of salary and compensation tied to the company. Management become risk-averse more than shareholders do, and they tried to adapt strategy with low risk; while shareholders may seek for high risk and high return; managers with this attitude will lead to less innovative firms. To avoid such conflict, firms' governance work systematically to control agents' actions (L'Huillier, 2014).

Eisenhardt (1989) discussed the agency theory and summarized general aspects about in Table 2-2. He pointed that it is about a contract between agent and principal but this contract may lead to different conflict as each part concern which may result in a problem and risks.

Table 2-2: Agency Theory Overview

Point	Description
Key idea	Principal-agent relationships should reflect efficient organization of information and risk-bearing costs
Unit of analysis	Contract between principal and agent
Human assumptions	Self-interest Bounded rationality Risk aversion
Organizational assumptions	Partial goal conflict among participants Efficiency as the effectiveness criterion Information asymmetry between principal and agent
Information assumption	Information as a purchasable commodity
Contracting problems	Unclear tasks and control process
Problem domain	Relationships in which the principal and agent have partly differing goals and risk preferences (e.g., compensation, financial performance)

Source: Eisenhardt, K. M. (1989). Agency Theory: An Assessment and Review. *The Academy of Management Review*, *14*(1), 57–74. Retrieved from http://www.jstor.org/stable/258191

2.4.2 Stewardship Theory

The concept of stewardship theory is based on social psychology and focuses on the behavior of management. It assumes that managers (stewards) are self-motivated and work in the best interests of their principles (Donaldson & Davis, 1991; Heenetigala, 2011). The stewardship theory is grounded in X-Y motivation theory by McGregor (1960), McGregor in the Y motivation, pointed that staff are being self-motivated and they do not need control, their authority facilitates decision making in order to achieve firms' goals (Bonna, 2012).

Donaldson & Davis (1991) introduced the stewardship theory as an alternative approach of corporate governance to the agency theory. Donaldson and Davis' paper propose that unifying the CEO and chairman in the same position will facilitate authority and bring benefit to shareholders. Donaldson & Davis (1991) added that agents are more trustful in stewardship theory than in the agency theory. The agency cost assumed to decrease because there is no need for intensive control and monitoring, also agents are aware of their reputation which is a self-motive (Donaldson & Davis, 1991).

Anderson & Melanson (2007) and Perek (2009) pointed that according to the stewardship theory the board act as part of collectivism with management, they work together and the board empower management to achieve organizational goals. Perek (2009) added that the Stewardship theory assumes there are majority of insiders who leads to better corporate, and this will result in more profits and shareholders' wealth maximization.

Stewardship theory assumes that the first priority for managers is the firms' success. It assumed that managers protect shareholders rights, and maximize shareholder wealth. A steward do his/her best to improve performance and satisfy stakeholders. The stewardship theory focus on empowerment and motivation rather than monitoring (J. H. Davis, Schoorman, & Donaldson, 1997).

Stewardship theory assumes that there is no personal or self-interest for managers. It Assumes that they work for the interest of shareholders to achieve the firm's goals and maximize the interests of owners, Managers are not motivated with their self-interest like salaries and compensation but they work toward the success of the firm (Bonna, 2012).

Stewardship theory does not ignore or deny that managers may work for their interest but they work mainly for the principles' interests. Because of two reasons, first they consider them self's as general record for shareholders because they are working with high performing firms, second, they believe they were selected and promoted to work with a well-reputed organization so it is a priority to focus on firm goals (Lane, Cannella, & Michael, 1998; Shleifer & Summers, 1988)

2.4.3 Resource dependency theory

Resource dependency theory developed by Pfeffer in 1972, states that companies depend on one another for getting the required resources. As a result, links created between firms. These links created by an interlocking board membership. Where a board member in a firm is also a board member in the other. This interlocking help in developing social cooperation between the two firms or more (Ovidiu-Niculae, Lucian, & Cristiana, 2012).

Resource dependence theory has been one of the powerful theories in organizations and strategic management theories. It considered corporate structure as open system, where it uses external resources as needed (Kaur, 2018). Hillman et al. (2000) pointed that resources are the major influencer on firms' success and firms may need external resources. The Resource dependence theory concern about board members and connections to get benefits from external environment by procuring important resources. Other benefit is the continuous cooperation and coordination via an open dialog, which will minimize the cost of communication and achieve mutual benefits for all companies. Besides, a good relationship with other companies and stakeholders will add value to companies and reduce their risks (Darweesh, 2015). Darweesh added that interlocking directorship would create a social and mutual benefit for different firms.

Resource dependence theory can help boards to mitigate external environments uncertainty, it helps firms to manage external dependencies, industry pressures, and substantially different (Boyd, 1995). Saatci (2011) pointed that having connections between firms via the interlocks will help to exchange ideas and information; Boyd (1995) added that firms with interlocks may have small boards but they have high response to uncertainty, to any unstable condition or intrinsic need that is not available within the firm .

Richard (2003) pointed that Resource dependency theory argue that organizations with open system structure are able to adapt to environment, firms structure may change as required to match external needs. Resource dependency theory assumes interorganizational resource flow, as needed, which will in the success of the firm. Richard (2003) added that in the case of closed systems firm's success will depend on internal resources and personal motivation, which is a high challenging situation.

Haniffa & Hudaib (2006) noted that Resource dependence theory is particularly preferred for boards with high percentage of non-executive directors, who can help with their experience, knowledge and connections. Kiel & Nicholson (2003) added that non-executive directors can help in easy access to the political and business contacts, so by enhancing networking with external stakeholders they can bring benefits to their firms and so they can simply help in improving firm performance.

2.4.4 Stakeholder Theory

R. Edward Freeman first described stakeholder theory in his publication "Strategic Management- A Stakeholder Approach in 1984" He suggested that shareholders are merely one of many stakeholders (Freeman, 1984; Freeman & McVea, 2001).

A stakeholder is "any group or individual who can affect, or be affected by, the achievement of a corporation's purpose" (Freeman & McVea, 2001). Stakeholders include employees, customers, suppliers, stockholders, banks, environment , government, and other groups who can help or hurt the corporation (Bravo-urquiza & Moreno-ureba, 2021; Darweesh, 2015).

Stakeholder theory based on general systems theory of Ludwig Von Bertalanffy. From the governance point of view, the theory is principally based on the premises that a firm's board of directors should work in the best interests of all stakeholders, not only for the owners (Tutun Mukherjee & Sen, 2019).

The stakeholder theory address the problem of cooperation between crucial partners, where a conflict is likely to cause the company serious harm and smooth cooperation is of vital interest for both parties. (Tullberg, 2013). Perek (2009) said that firm stakeholders (employees, shareholders, investors, customers, government, community..) do the needed efforts to achieve organizations' goals, the stakeholders should be included in strategic decisions, he added that there involvement in the firm governance mechanisms should be limited to the extent because not all have the needed managerial skills and experience.

Despite that stakeholder theory argues that all interests of stakeholder should be taken in consideration; Sternberg (1997) argued that stakeholder theory is incompatible with business, because there is no way to balance benefits of all; no way to maximize shareholder wealth and in the same time maximize customers value-added and maximize the employees benefits. Sternberg (1997) added also that number of stakeholders is undefined and is unknown, so how can benefit of all stakeholders achieved with unknown beneficiaries.

Sternberg (1997) said that stakeholder theory is as incompatible with good corporate governance as it is not good for business too, He pointed that one of the key issues in governance is accountability, employees are accountable to their firm and directors are accountable to shareholders. Sternberg asserted that corporations should be equally accountable to all their stakeholders, which not consistent with governance systems.

2.5 Corporate Governance Models

2.5.1 Market-Based model

Market-Based or Anglo American model is a presentation for capitalism where a single-tiered board structure exists. It was crafted by the more individualistic business societies in UK and USA (Berghe, 2002). The Model focus on shareholders' interests and is characterized by independent board members, dispersed ownership, transparent disclosure, active takeover market, and well-developed legal infrastructure (Zulkafli, Samad, & Ismail, 2003). The market-based model is mostly seen in Anglo-Saxon countries such as the US and UK, where the protection of minority shareholders is robust, there is a strong emphasis on maximizing shareholder value (R. L. A. Porta, Lopez-de-silanes, Shleifer, & Vishny, 1997). The Anglo-American system demonstrate emphasizes free market environment where the firm is mainly an instrument to achieve maximization for shareholders value (Berghe, 2002).

Kaur (2018) said that The Anglo-Saxon model is the mix of corporate governance practices from USA, UK, Canada, Australia, and other common wealth nations, the model propose CEO duality (chairman/CEO is the same person) along with the separation of ownership and management. Kaur added that in this model the board comprises of independent directors and executive directors, they have good communication, they take decisions according to voting rights to elect directors and assign management.

Ownership concentration is one of the most important variables in corporate governance and affect financial performance (Chang & Leng, 2004). In the Anglo-Saxon countries, dispersed ownership structures prevail, which justifies superior investor protection mechanisms (Mertzanis, Basuony, & Mohamed, 2019).

The classical, Anglo American model exclusively focuses on the shareholders' value (Siebens, 2002). The model is characterized by a diffused ownership structure with robust and liquid securities markets (Heenetigala, 2011). In the outsider model managers are assigned externally, they control firms and may work for their interests like compensation rather than the shareholders' interests. This may result in conflict between management and shareholders, and show low loyalty from management.

Berghe (2002) pointed out that, to entail good corporate governance there should be effective control mechanisms in the market-based model. In this model board of directors, need to control over the management to focus on shareholders' interest and maximize firms' performance other that focusing on management interests like salaries and compensations. The board need to be sure that management are not focusing on their private benefits. The board need to control firm performance through the financial reporting and other tools (Abdelkarim & Abusharbeh, 2016). Other tasks for board like ensuring that the firm is working according to strategy, protecting shareholders rights and assigning audit agencies (OECD, 2004).

Palestinian firms are considered market-base, there is a high degree of ownership concentration, boards are formed by shareholders, some boards include executive management; boards are seeking for profit maximization and give concern to other stakeholders (Abdelkarim & Alawneh, 2009).

2.5.2 Relationship-Based Model

The relationship-based model is considered an insider model (Ciftci, Tatoglu, Wood, Demirbag, & Zaim, 2019). Other synonyms are Rhineland or "network-oriented" or "insider" system (henceforth "insider system"), the Latin system, and the Japanese system (Berghe, 2002). In this model small number of shareholders own majority of shares and have control over firm (Çiftçi, 2016).

The model is characterized by a concentrated ownership structure with weak and illiquid securities markets (Çiftçi, 2016). The Japanese keiretsu corporate governance system, which is an example of relationship-based model ,is characterized by the complementarity between its bank-centered, relationship-oriented financial system, and internal labor market practice of lifetime employment (Hoskisson, Yiu, & Kim, 2004).

Evidence from Germany show a positive impact of insider model on firm value , it can be explained by the what is called convergence-of-interest hypothesis, stating that when insiders have larger shares, this will result in higher market valuations because of lower agency costs (Kaserer & Moldenhauer, 2008)

In most cases, there is a conflict of interest between the majority and minority shareholders, because in general small group(s) possess large proportion of shares and has/have the controlling power to expropriate the rights of minority shareholders. Ownership concentrated with few shareholders may have a negative effect on a company as the few portions can make and influence company decisions (Coffee, 1991; Javid & Iqbal, 2008).

Berndt (2000) mentioned that countries like France, Germany, and Italy show high level of ownership concentration, non-liquid capital markets, and a high degree of cross-holdings, the system is caller insider.

Çiftçi (2016) makes comparison between market-based (outsider) and relationship-base (insider) models: (Table 2-3).

Table 2-3: Comparison between market-based and relationship-base systems

Title	Market -Based System	Relationship-Based System
Ownership Structure	Dispersed	Concentrated
Control	Managers or institutional investors	Shareholders or financial institutions
Goal	Maximization of shareholders' interests	Maximization of stakeholders interests
Practices, countries	Anglo-Saxon	Continental Europe East Asia and Latin America
Agency conflict	Managers and widely dispersed shareholders	Majority and minority shareholders
Monitoring	Weak	Strong
Management	Contract-based	Relationship-based
Market	Depth and liquid	Weak and non-liquid
Employee Representation on Board	Rare	Common
Board Structure	One-tier system	Mostly two-tier system
Market capitalization	High	Low
Transparency	High	Low

2.5.3 Hybrid-Based Model

Hybrid model of corporate governance is a combination of both insider and outsider models. For example Germany is insider-oriented, UK is outsider-oriented, this is due to cultures and firms board structure (Clarke, 2007; Yeoh, 2007). Yeoh (2007) added that countries like India and Poland are interested in both models, they want to protect workers' interests which is part of insider model and at the same time they want to care for shareholders interests which is part of outsider model; the hybrid model fits these countries needs as it combine both models.

Clarke (2007) pointed that the outsider model is oriented towards shareholders and consider shareholders value maximization as the main concern while the insider model system is close all stakeholders and concern to achieve value for all of them.

The literature discussed a hybrid system, which contains the characteristics of both systems. in India as an example, the corporate governance system is considered hybrid not like the insider as in USA and UK, and not outsider as in continental Europe and Japan (Thyil & Young, 2010). The Indian governance fits the Anglo-Saxon model in the evidence of protecting shareholders by mandatory legal rules, regulations, and codes for the governance.

Yeoh (2007) discussed Poland as example for a hybrid-based model. It is a capital market country chosen a hybrid model of corporate governance which contains key features of the insider-oriented system as represented by Germany; and the insider-oriented system as represented by the UK. Poland chosen this model as a response to foreign investors' needs, which were not applied by previous model. In parallel with applying investors' needs, Poland want to preserve its tradition of protecting employees' interests and some level of ownership structure. The boards are characterized by a structure with enough employee representations, concentrated ownership and insiders. Yeoh added that the 2006 EU takeover directive through its opt-out provisions has implicitly recognized and accommodated the insider and outsider systems. Poland's implemented the hybrid-base model to integrate these two models (insider and outsider) by doing an equitable treatment of all shareholders, increased transparency and accountability, consideration of other stakeholder interests, enough independent board members and efficient auditing.

2.6 Corporate Governance Codes

Hundreds of USA firms are merged in the period of 1960 to 1970 (Hubbard & Palia, 1999). The merges stress the development of the first code of governance in 1978 in USA to enhance the external governance mechanism and to focus more on shareholders rights (Holmstrom & Kaplan, 2001) . Researches show that first countries that issue governance codes are, USA, followed by Hong Kong, Ireland, UK and Canada, were countries with a similar law, or English-based, legal system (Aguilera & Cuervo-cazurra, 2009).

Year 1992 is considered a focal point in the development of code of governance around the world, That year, the Cadbury Report issued in UK containing code of best practices, and several dimensions introduced into corporate governance systems not only in the UK but also around the world (Duh, 2017; Sheridan, Jones, & Marston, 2006).

Early 1991s, Eastern European countries have made efforts in setting terms of regulations and law systems due to privatization, trade liberalization, the development of domestic financial markets and globalization (Hermes et al., 2007). After 2000s there were different reviews for governance roles due to legal backgrounds and cultural contexts, business forms and ownership; each code of corporate governance were developed by a variety of bodies ranging from committees in different countries , development was due to the need for more transparency, accountability and to satisfy investors in stock markers (Mallin, 2013).

The main principles of corporate governance are equality, transparency, accountability, and responsibility, which are universal and indifferent to the country's structures (CMB, 2005).

The developments of code of governance in some countries will be briefly described. In UK as it is one of the most important contributor in the development of code of corporate governance. OECD code as it is the core input for all countries . Finally, Palestine as it is the case for this study.

2.6.1 Code of corporate governance in UK

Mallin (2013) pointed that UK market is considered diverse shareholder-base, it included different types of investors from different sectors, it has a main concern about ownership and control of firms. Efforts to develop governance rules started after the scandals in the late 1980s and early 1990s, including the collapse of the BCCI bank and the Robert Maxwell pension funds (Council, 2006).

Corporate governance is considered a good system to improve firms' performance and operations by enhancing the board function in supervising firm effectively and in providing accountability to shareholders (Council, 2006). Quoted from Cadbury report in 1992 "The effectiveness with which boards discharge their responsibilities determines Britain's competitive position. They must be free to drive their companies forward, but exercise that freedom within a framework of effective accountability. This is the essence of any system of good corporate governance".

Different sequenced reports in UK pushed towards good governance practices for issues like board composition, accountability, directors' remuneration, and auditing. Those reports were developed according to raised issues and due to high concern for having healthy firms. Developed reports are the Cadbury Report in 1992, The Greenbury Report in 1995, The Hampel Report in 1998 and ultimately Combined Code in 1998 (Lei, 2006; Saatci, 2011).

Mallin (2013) discussed the reports that describe the development of UK code of corporate governance started with Cadbury Report in 1992 ended by the code of corporate governance in 2010.

Table 2-4 show those reports with brief summary for each report involvement.

Table 2-4: UK Corporate Governance code development - related reports

Report	Summary
Report (1992)	Issued after different scandals (Bank of Credit and Commerce International (BCCI) and Maxwell). The report contained recommendations about the board and related committees functions, and board composition.
Greenbury Report (1995)	Gave more concern about different stakeholders
Turnbull (1999)	Provided guidance on the implementation of the internal control and board responsibility. Moreover, ensured that a company has internal control.
Myners (2001, 2008)	Concentrated more on the trusteeship aspects of institutional investors and the legal requirements
Higgs (2003)	Proposed additional recommendations about non-executive directors, number of board and committees meetings, the annual report and separation of CEO and chairman
Smith (2003)	Focused on the important role of the audit committee
Revised Smith Guidance (2008)	Concern more on role of the audit committee and risk management
Walker Review (2009)	Following financial crisis in 2008, it has recommendation about: board structure, board functions, role of institutional shareholders' communication, the governance of risk and remunerations
UK Corporate Governance Code (2010)	Contain six main changes, which are: 1. Improve risk management 2. Performance-related pay 3. Board re-election every year as a way of increasing their accountability. 4. Chairman and NED responsibilities 5. Board composition 6. the chairman should hold regular development reviews with each director

2.6.2 OECD Principles

OECD defined the main concerns of corporate governance, which are: accountability, fairness, and transparency (Tigrel, 2014). The principles are a reference for corporate governance, they are not compulsory and can be adapted as needed from one country to another according to internal regulations and environment (OECD, 2004). These principles considered as starting point for countries to develop their principles, and this what happened in Palestine (CGNA, 2009), and in other MENA countries like Jordan and Egypt (Sarhan, Ntim, & Al-Najjar, 2018).

The principles prepared in a way to support economic effectiveness, efficiency, and to support economic stability and development. Different principles have been developed to control firm and protect shareholders rights, these principles have been grouped into four categories; shareholders, public disclosure and transparency, stakeholders, and board of directors (Tigrel, 2014).

OECD Principles of Corporate Governance adopted by the countries of the OECD in 1999; these principles become the reference for the developed code in Palestine and in other countries. The OECD Principles are considered as the main reference for regulators to have a well-protected stock markets, the developed regulations should provide guidelines for intuitionalism, and should protect shareholders' rights (CGNA, 2009; Jesover & Kirkpatrick, 2005; OECD, 2004).

Code of corporate governance developed and still in the implementation phase in Palestine. The code helps to mitigate and control principal-agent problems within companies. In many countries codes of corporate governance focus on protecting shareholders rights and ensuring transparency and accountability (Denis & McConnell, 2003; Hermes et al., 2007).

The OECD Principles and Definition of corporate governance can be considered as a system of rules and procedures used to manage and control activities of a firm to manage conflicts of interest among stakeholders (Bonna, 2012).

The following are the principles of corporate governance as developed by OECD which were last updated in 2004 (OECD, 2004).

2.6.2.1 Brief about the OECD Principles

- **Ensuring the basis for an effective corporate governance framework;**

  This principle is about ensuring transparency and accountability by developing a fair market and efficient allocation of resources. It focuses on the quality and consistency of the different elements of regulations that influence corporate governance practices and the separation of authority. It discussed the legal and regulatory requirements that affect corporate governance practices in a jurisdiction that should be consistent with the rule of law.

- **The rights and equitable treatment of shareholders and key ownership functions;**

  This principle is about shareholders' rights to secure the process for ownership registration, obtain needed material information on a timely basis, attend and participate in the general assembly, and participate in board members selection and get their share form firms profits.

  Shareholders should have the right to participate and informed via all available methods and channels about fundamental corporate changes.

- **The Equitable Treatment of Shareholders**

  All shareholders are considers equal in the corporate governance framework, including small foreign. All shareholders should have the opportunity to ask for their rights equally, they should be secured, and they should be able to access and have all information especially in the general assembly and for any strategic decision and voting right.

- **The role of stakeholders in corporate governance;**

  All stakeholders should have their rights by law, and there should be cooperation with stakeholders to have wealth jobs and to know all about the sustainability of the firm and its financial situation. Stakeholders should have the opportunity to obtain effective redress for violation of their rights, and able to access any needed information. Communication channels should be clear and open to all stakeholders including employees to report any miss use information or fraud.

- **Disclosure and transparency**;

The corporate governance framework should ensure the issuance of periodical reports about firms' performance; reports also should include information about ownership structure, risks, strategic plans, objectives and performance indicators, ownership, and governance of the company. High-quality standards Information delivered with no bias. External qualified and accountable agencies should audit the firm(s) to ensure the financial position, performance, and compliance position.

- **The responsibilities of the board;**

The corporate governance framework should include effective monitoring over management from the board. The board should be professional and work towards the firm success by adhering to firms' strategy and protecting shareholders' rights. They should act with due diligence and care with ethical standards. The Board should review the strategic plan, the firm's potential risk, and the management. They should be transparent in the board members selection process, and they should focus on the interest of owners in management recruitment.

The board should be able to exercise objective judgment on corporate affairs by engaging enough independent members, and they should commit themselves effectively to their responsibilities toward all related committees like audit and remuneration (John, Masi, & Paci, 2016).

2.6.3 Corporate Governance n Palestine

2.6.3.1 Development of Corporate Governance in Palestine

Development of code corporate governance in Palestine moved through different phases as response to international development of corporate governance especially after issuance of OECD Principles of Corporate Governance. After sequence of actions, describe herein, the National Committee for Governance (NCG) in Palestine they prepared the first version of the code of corporate governance in Palestine in 2009 (CGNA, 2009).

Kutum (2015) noted that there has been not enough research about corporate governance in Palestine. There is a need for corporate governance reference and regulations for the firms, especially for the listed ones. And also a need for compulsory regulations for firms and compliance enforcement.

Abdelkarim & Alawneh (2009) noted that after the political agreement in 1993, new firms were established in Palestine as response for customers' demand. The investors were motivated for new investments. There were promises and agreements to free constraints and creation of legal environment. Abdelkarim & Alawneh added that the Palestinian economy started healing after a long time of destruction; due to the unstable environment, there were lack of regulations and governance principles, so there was a need to develop local governance regulations.

Efforts towards economic development started with the establishment of the Palestine Securities Exchange (PEX) in 1995 and providing public shareholdings with new opportunities. Since then the PEX issued a set of bylaws that govern and regulate the relations with the listed firms. The process of regulating and governing the corporate managerial structure and the characteristics of the board of directors has become a focal topic in the study of corporate performance (Daraghma, 2010). The establishment of PEX has provided public shareholdings with new opportunities for long – term financing (PEX, 2019a).

In 2005, the Palestinian Capital Market Authority (PCMA) established following Securities Law number 12 for the year 2004. It is governed by a Board of Directors composed of seven members, Its jurisdiction encompasses securities, insurance, financial mortgage and financial leasing sectors (PCMA, 2019). PCMA put principles to ensure the protection of shareholders rights by having transparent business environments.

In 2009, PCMA, the Palestinian Security Market Monetary Authority and the IFC has set the rules of Corporate Governance in Palestine, The code of governance prepared by an international committee and supervised by the Palestinian Capital Market Authority (PCMA), this code is the main reference for firms' governance. (CGNA, 2009)

In 2015 PCMA did an initial assessment according to the prepared code but they did not publish the results, PCMA mentioned that companies were cooperative and they are on the right track to implement governance (United, 2015).

According to (CGNA, 2009) corporate governance Principles are not far away from OECD principles as it is concerned and deals with the fundamental aspects of Corporate Governance. While developing the code, the committee guided by the principles of the Corporate Governance issued by the International Organization for Economic Cooperation and Development (OECD). In addition to other, corporate governances codes prepared for both regional and international levels, main points considered in its principles' development:

- Justice and Honesty in the treatment of the shareholders and other interest holders (such as the employees and creditors)
- Transparency and disclosure concerning all financial and non-financial matters in a way allowing the shareholders and the public to assess the company's state of play and its modus operandi.
- Questioning the work coordination between the Administrative Directorate and the Board of Directors; the Board of Directors and the shareholders
- The responsibility about the clear separation of duties and the delegation of authorities.

2.6.3.2 Palestinian Code of Governance Principles

- **General Assembly Meeting**

According to this principle the firm should conducts at least one annual general assembly for shareholders, this meeting is important to make the strategic decision(s) or discuss intrinsic issue(s) according to request from major shareholder or authority. The board should organize the agenda and send materials with invitations on a defined period. There should be an organized place in planned time and agenda.

General assembly show level of accountability of the board through reporting and discussion the, also it assign/renew the authority to the board over the organization (Siebens, 2002).

External auditor assigned during the general assembly, the board nominate an external auditor but the final decision for the shareholders or the delegate in the general assembly to select the Auditing agency (Darweesh, 2015; Demise et al., 2006)

- **Shareholders compatible rights**

Firms should show high concern for shareholders' rights in order to avoid higher agency cost by the separation of ownership and control (Jiraporn, Kim, Davidson, & Singh, 2006).

Firms with strong concern for shareholder rights have higher earnings, and higher market values than other firms with weak concern for shareholders rights (Bonna, 2012), this principle guarantee rights for small and foreign investors.

According to this principle, shareholders' rights preserved for voting, for attending the general assembly, and for viewing all firms’ reports through the approved channels. All shareholders have the same right to trade their shares and gain profit margin, to elect a membership or even nominate their selves or another one according to laws and regulations.

Fairness is required from the firms towards all shareholders and the stakeholders. Equality or fairness means equal treatment to all stakeholders and shareholders. Especially in family-controlled or concentrated ownership structures small shareholders' rights are mostly expropriated by major shareholders (Çiftçi, 2016; P. Kumar & Zattoni, 2015).

- **Board Structure**

The main corporate governance actor is the board itself. This principle is about organizing the board structure, roles, responsibilities, and related committees (CGNA, 2009; OECD, 2004).

The Board is primarily concerned with three areas, monitor and review firms' strategy, abide legal and statutory boundaries, and balance the interest of all stakeholders(Ghosh, 2000).

Y. F. Lin, Liao, & Chang (2011) mentioned that “Control of board of members” represented by four variables the board size, the percentage of common stock owned by the board of directors, the ratio of outsiders, and the duality of CEO.

The Palestinian Code of Governance mentioned that board size must not be less than five and not more than eleven. The Board should reflect the composition of the shareholders and the distribution ratio of capital (CGNA, 2009).

Researches about defected firms show that reducing the number of board members has a positive impact on firm performance, as this will enhance innovation and problem solving and making decisions easier (Yermack, 1996).

The Boards of Directors are responsible for representing the interests of shareholders in the running of the firm through the hiring, monitoring, and replacement of firm management (Aglietta, 2008; Hua, 2003; Strange et al., 2009).

Studies show that board structure enhances chances to protect companies from collapsing via giving workaround plans and adoption of corporate governance principles (Abatecola, Farina, & Gordini, 2014; Renders, Gaeremynck, & Sercu, 2010). In the 2008 crisis, it was clear that many survived firms were adopting corporate governance principles, this preparation helped them to face the crisis efficiently, on the other hand companies with bad governance were influencing badly by the crisis collapse (Belén & O. Idowu, 2018).

Aguilera & Cuervo-cazurra (2009) said that code of governance documents might not include all details about corporate management. The code of governance recommends a good board structure and recommend relationships with management and other internal/external parts.

Reed (2002) pointed out that boards are accountable to provide relevant information to shareholders and other stakeholders with legitimate claims. Reed added that the board should monitor and supervise firm management.

N. Kumar & Singh (2012) investigated Indian listed firms in 2008 to analyze the monitoring effect by non-executive/non-independent and independent board members. They found that the non-executive/non-independent have a near significant impact on firms' value while independent directors have significant positive impact on market value. N. Kumar & Singh analyzed the effect of outside board members on firms' value and they found that the outsiders have a negative effect.

Aggarwal, Schloetzer, & Williamson (2016) pointed that in order to have good corporate governance majority of board members should be independents. In Palestine, there is no limitations for independent board members. It is preferred to have at least two independent members but they should have a four-year university degree and have experience in the company's area of work, and they do not have any relation to the company other than the membership as this will ensure no conflict of interest (CGNA, 2009).

The existence of independent members within the board is asserted to make it effective in monitoring a firm's managerial opportunism (Bhagat & Bolton, 2008; Liao, Luo, & Tang, 2015; Tessema, 2019), it is one of the key attributes(variables) that affect financial performance.

Listed companies in the stock market should have independent member(s) on their boards but there are no published articles that show the effect of their membership on the financial performance, firms like Jawwal, Bank of Palestine, Palestine Islamic bank and others (PEX, 2019a).

Regulations are important to enhance greater board independence which will lead to more effective firms (Anginer, Demirguc-Kunt, Huizinga, & Ma, 2018; Masulis, Wang, & Xie, 2012). According to Palestinian principles independent board members are preferred to be local members, as international members might miss board meeting which will lead to low performance (Masulis et al., 2012)

As mentioned in the code of governance the board should not engage in firm operations and should focus on leadership and control over the firm management. The board should support management and focus on a firm strategy, review, and approve annual reports and budget, and review transactions related to the capital structure, set the salaries for executive management, and attend period board meeting (CGNA, 2009).

The board has the right to form committees as needed to support their mission. Evidence shows that the existence of committees enhances firm performance, like remuneration and audit committees (Christensen, Kent, & Stewart, 2010; Darweesh, 2015).

Bonna (2012) pointed out that the number of board committees is important for firm governance that enhanced the decision-making process, also the more committees will result in a more efficient and independent Chairman of the board would be.

Audit and remuneration committee may considered as the most important committees. Studies analyzed the role and structure of audit committee and pointed that and audit committee should be formed by independent members to be more efficient (Ararat, Black, & Yurtoglu, 2017; Renders et al., 2010).

In Palestine and according to the code of governance it is preferred that a firm have three committees in particular. Audit committee to ensure the transparency of the company's accounts and inform the shareholders and other stakeholders of the degree of the risk that faces the company; Remuneration Committee and the Governance Committee to control the process of applying the governance rules (CGNA, 2009).

- **Audit committee**

The audit committee main functions to regularly meet with auditors (internal and external) to review audit processes, financial statements, and internal accounting controls (Marashdeh, 2014).

Auditing contributes to the reduction of information asymmetry and consequently agency costs by allowing for the timely disclosure of verified accounting information to shareholders (Klein, 1998). Auditing also contributes to reduce financial fraud(s) which will give more confidence to investors and will lead to better firms' value. Audit committees require more transparency from management, thus enhancing the quality of financial disclosure (Klein, 1998), particularly to shareholders, thus reducing the agency problem.

Board form audit committee to perform control over the firm and to the prepare needed auditing reports and to monitor different firm activities to ensure the integrity of the firm's processes (Çiftçi, 2016). This committee encompasses three members and the committee head should be independent board member and one of the members should have experience in finance and accounting (Ararat et al., 2017; CGNA, 2009). According to (Aggarwal et al., 2016; L. D. Brown & Caylor, 2009) audit committee should consist only of independent members. Gunarsih et al. (2018) pointed that the size of audit committee is not important, so board are not limited to specific number of members and structure.

The main functions of the audit committee are: reporting to the board, contact and coordinate with external auditors, ensure firm compliance with accounting policies, compliance with laws/regulations and verify the internal process (Renders et al., 2010).

An external auditing agency should be assigned through the annual meeting; they need to be licensed and qualified enough for their job, and independent from any relationship with the board and do not have any financial interest with the firm.

His principle include that the management should facilitate the auditors tasks and give them the needed support and access to all reports and information.

- **Disclosure**

Good governed companies make efficient disclosure for current shareholders and potential investors (Wandroski Peris, Contani, Ferreira Savoia, & Reed Bergmann, 2017). Firm should adhere to rules and regulations about information disclosure, which is announced periodically, or upon request from related parts, supported materials needed to be attached or send with any disclosure (CGNA, 2009; Dincer & Dincer, 2013; JCGC, 2009; OECD, 2004).

In some cases, a negative impact might occur to companies who might delay in information disclosure even for good news, because this will make suspicion about firm performance and abidance (Hua, 2003).

In Palestine as in other countries , disclosure is very important, PCMA entails the disclosure for any kind of extraordinary changes and situations to the public such as changes in articles of association, capital changes, mergers and acquisitions, and sale of assets in addition to financial issues (CGNA, 2009; Tigrel, 2014).

- **Other stakeholders**

Corporate governance secures confidence for not only shareholders but also other stakeholders, such as government, employees, suppliers, creditors, customers, and any person with a working relationship with the company in ensuring the firms' leaders are accountable for their decisions. (Cadbury, 1992; CGNA, 2009; Zaharia, 2012).

Firms should review relationships and obligations with other related third parties. Firms should be transparent to its employee about procedures and benefits like insurance, annual bonuses, penalties, and others; by this process, the company ensure loyalty.

Studies pointed that there should be a professional ethics code to be approved by the shareholders in the annual general assembly meeting and then distributed to all the staff (Ararat et al., 2017; Arda, 2016; Braga-Alves & Morey, 2012; CGNA, 2009).

2.7 Corporate Governance attributes

There is no one standard corporate governance model. Most models include codes that ensure delineation of rights and responsibilities of different stakeholders; equitable treatment of stakeholders; Transparency; and Clear definition of rules and responsibilities of corporate managers and directors. (Bonna, 2012; CGNA, 2009). Berghe (2002) said that a corporate governance model is presented through structures and processes that comply with a country legal, and institutional, and cultural context.

Studies analyzed the impact of different corporate governance variables on financial performance (Abdelkarim & Abusharbeh, 2016; Bonna, 2012; Çiftçi, 2016; Darweesh, 2015).

Following briefs for different researches:

Marashdeh (2014) conducted a study to investigate the effect of the corporate governance on firm performance of the Jordanian industrial and services companies during the period 2000 to 2010. He discussed the agency problem, the ownership concentration, the ownership of executives, and the board attributes. The study found that a significant impact for board attributes, especially the duality of CEO and Chairman on the firms' financial performance. Besides, non-executive board members are important for boards and firms performance, due to their experience and reputation. In addition, there is a negative impact of executive members' ownership and ownership concentration on a firm's performance, while foreign ownership has a positive impact.

Mukherjee & Sen (2019) said that corporate governance in a firm depend on board size, the proportion of women directors on the board, CEO's duality, board education level, board independence, and presence of family affiliation on the board. They found significances for board size and board independence but other factors do not show any significant linkage to corporate sustainability growth.

Rodriguez-Fernandez et al. (2014) mentioned that the independent variables are the board size, board meetings, percentage of independent directors, and duality of the role for CEO/chairman. They found no relationship between board size and firm performance, but negative relationship between the board of directors' meeting and firm performance. There is also no significant relationship between the percentage of independent directors, the business of directors, and duality role of CEO-chairmanship with firm performance.

Heenetigala (2011) pointed out that corporate governance variables are separated leadership, board composition, board committees, and corporate social responsibility (CSR) reporting. Separate leadership refers to the separation of the position of Chairman and CEO (non-duality of CEO); board composition refers to a majority of non-executive directors on the board; board committees refer to the presence of audit, remuneration, and nomination committees; and corporate social responsibility reporting refers to reporting of CSR activities.

Mertzanis et al. (2019) performed research to examine the impact of social institutions, firm-specific corporate governance and ownership characteristics on firm performance in the MENA countries. In order to represent corporate governance they used the following independent variables: board size, board composition, CEO duality, gender diversity, ownership concentration, institutional ownership, insider ownership, and foreign ownership. They use the data for 225 companies for eleven companies from MENA region during 2007 to 2017. They found that board compositions, ownership structures, board size, Institutional ownership, Insider ownership appear to be significant predictors of firm performance.

R. R. Bhatt & Bhattacharya (2017) found that Leverage, firm age, firm size, asset tangibility, and sales growth and stock volatility have an impact on financial performance where Leverage, firm age and asset tangibility have a negative impact while firm age, Sales growth have a positive impact on financial performance.

Chang & Leng (2004) found that there is a significant relationship between the size of the firm and ownership concentration with firm performance.

Çiftçi (2016) studied the effect of different attributes of corporate governance in Turkey. He included corporate governance index with other parameters, Çiftçi pointed that the index itself cannot reflect measure the level of corporate governance for different firms. In addition to the corporate governance index, he investigated other independent variables on financial performance. Çiftçi grouped the variable into three groups, Ownership structure, Board attributes, and control variables. Çiftçi examined 210 Turkish firms through the period 2010-2013. The study found that ownership concentration, foreign ownership, and board size have a positive impact on financial performance; also the study found public and corporate ownership, and the proportion of non-executive independent directors on the board, have a partial negative effect on firm performance. Board gender diversity and duality of CEO and Chairman have no impact on financial performance.

Bonna (2012) conducted a study about the impact of corporate governance on financial performance. Bonna selected 80 firms, data collected from annual reports, and companies' websites for the period 2005-2009. The study pointed that corporate governance can be represented by the following independent variables: board independence, size of the board, shareholder rights, committees, leverage, and executive compensation. Results show that board size and board independence has no direct impact on firms' values. The study suggests that reducing the number of advisory committees, optimizing leverage, and decreasing executive compensation will make a positive impact on firms' value.

Abdelkarim & Alawneh (2009) presented level of corporate governance by ownership concentration, which measured by the sum of the shares held by the five largest shareholders, they also used net income growth, and leverage as control variables bias. The study found that ownership concentration has an impact on corporate governance

Corporate governance is also affected by gender diversity, independent board members, environment committee, while it is found that there is no significance for CEO duality, firm size, board size, and the number of board meetings (Liao et al., 2015).

Mukherjee & Sen (2019) pointed that board size, board independence, CEOs duality, female members, board education, and the presence of family's ownership represent corporate governance. The board considered educated if more than 50% have master's degree. The board independence is a ratio of independent board members to the board size, for female members, it is a dummy variable that it is one if there is at least one female member. The research shows a positive impact of the board size, board independence, and presence of family affiliation; while other variables do not show any significance.

Larcker et al. (2007) built a broad Turkey Corporate Governance Index (TCGI) over 2006–2012, covering almost all publicly traded Turkish firms. The index contains five categories board structure, board procedure, disclosure, ownership structure, and minority shareholder rights. The categories have equal weights and each contains a detailed breakdown. For example breakdown for the board of directors, the category contains information about the number of meetings, the number of directors who are members in audit and remuneration committees, and so on, busy outsider is a variable that shows busy a board member if he/she is members in another three boards. The study show relevance between governance and performance but does not point to a specific item(s). Researchers pointed that this is due to analyzing a single year of data so they cannot generalize the results.

Masulis et al. (2012) discussed board size, firm size, foreign directors and busy members[3]. Researchers pointed that foreign director(s) are considers less effective

[3] a busy member is the one who is a member of another three boards

because they may not be able to attend frequent meetings. Foreign independent directors show a negative impact on financial performance.

Mizuno (2010) designed a survey to measure companies' level of governance according to Pension Fund Associated in Japan, the survey contains sections about, board structures and related, management incentives, executive remuneration, outside director, outsider auditor, and finally the defensive measures against a corporate takeover. The study shows the influence of foreign investors on the level of corporate governance but in total there no effect of level of corporate governance on firm performance according to the used survey.

Aglietta (2008) believed that level of corporate governance is measured by board independence, separation of board and CEO, shareholder activism, audit committee, transparency, and disclosure of information. Aglietta pointed also that the most important role for the board is leading the governance process.

Renders et al. (2010) analyzed corporate governance across Europe depending on OECD 1999 principles; they created panel data for the period 1999-2003, for different countries in Europe. They made this selection because there are different corporate governance rating systems across the European countries. They found a positive relationship between corporate governance ratings and firm performance. A high rating means better protection for shareholders by the existing laws and regulations.

Aggarwal et al. (2016) obtained governance attributes from RiskMetrics. They collected data for 41 US. Main attributes categories are (1) Board (24 practices), (2) Audit (three practices), (3) Anti-takeover provisions (six practices), and (4) Compensation and Ownership (eight practices) (see Appendix A. Firm-level corporate governance practices). Following mandatory principles:

1. Boards must consist of a majority of independent directors.
2. Non-management directors must have executive sessions without management.
3. Nominating committee must consist of only independent directors.
4. Compensation committee must consist of only independent directors.

5. Audit Committee must consist of only independent directors and at least three members.
6. Shareholder approval of equity compensation plans.
7. Firms must adopt and disclose corporate governance guidelines.
8. Regular assessment of Board performance.
9. A Board-approved CEO succession plan is in place.
10. Consulting fees paid to auditors less than audit fees paid to auditors.

The research provides new insights into the governance culture of firms in the post-mandate period for governance implementation on the firm's level. Shareholder friendly culture enhanced after the mandate period. This enhancement includes on-going related-party transactions, lack of a governance committee responsible for nominating directors, and broad-based use of compensation practices.

Bhagat & Bolton (2008) considered five variables to represent corporate governance, board independence which is measured as the percentage of directors who are unaffiliated with the firm, director ownership which is measured as the natural log of the dollar value of common stock owned by the median director; CEO-Duality. CEO-Chair duality is an indicator variable taking the value of one of the CEOs is also the board chair, G-Index, Is the compilation of anti-takeover provisions in the firm's bylaw and E-Index[4]**.** The research show a positive correlation between board independence and firm performance, there is also a positive relationship between director ownership and firm performance.

Darweesh (2015) researched correlations between corporate governance and financial performance. He developed a governance index that consists of five independent variables: (a) board size, (b) board independence, (c) board committees, (d) executive compensation, and (e) ownership structure. He used an equal weighting approach for the years 2010 to 2014. Results of this research shows a positive impact for board size and executive compensation, while board committees and ownership structure had insignificant relationships with financial performance.

[4] a subset of the G-Index

In 2013 Omar Al Manaseer conducted research about the effect of corporate governance implementation and its effect on the financial performance of public shared companies in Jordan (Manaseer, 2013). The research depends on the code of corporate governance in Jordan; He got the data from companies' annual reports. He considered board size, board structure CEO Duality and foreign ownership are independent variables.

2.8 Financial Performance

The relation between governance and firm performance is complex. Firms might change their governance structures over time in response to many endogenous factors. Based on the costs and benefits of each governance mechanism, firms adopt the best form for their characteristics. (Ertugrul & Hegde, 2009)

Al-Matari et al. (2014) pointed that the financial performance of companies is the main concern for shareholders (represented by the board of directors) and investors (local/international) who search for a good investment opportunity. He added that globalization facilitates business activities and makes the world small enough for international investors.

There are different methods to measure and show financial performance, the ones that have been analyzed with the corporate governance are: return on assets (ROA), return on equity (ROE), and Tobin's Q (Arda, 2016; Çiftçi, 2016; Darweesh, 2015; Heenetigala, 2011; Y. F. Lin et al., 2011). Tobin's Q is characterized by its forecasting and reflection of the expectations of the shareholders concerning the firm's future performance and it is the most used indicator for market value (market-based measurement) (Al-Matari et al., 2014; Gunarsih et al., 2018).

Christensen et al., (2010) pointed that the financial performance is measured by Return on Assets (ROA) or Tobin's Q. In their study, there were opposite results when testing for to ROA and Tobin's Q. There was significant for duality of CEO/chairman on financial performance when measure by Tobin's Q while there it was insignificance when measured by ROA.

Hutchinson & Gul (2004) pointed that the accounting-based performance measures ROA reflect the management actions results in financial presentation and reflect the positive results for a planned high performance of an organization outcome and so ROA is preferred when the relationship between corporate governance and firm performance investigated. On the other side when ROA shows negative performance this means that management is not following their plans and not doing efficient control which reflects week management (Al-Matari et al., 2014).

Return on Equity (ROE) is another important measure for performance used with corporate governance, it is the return generated on equity capital invested in the corporation, it is also an accounting-based measure of financial performance widely used in making investment decisions (Bonna, 2012).

The literature on the relationship between governance parameters like role duality of chairman and CEO; board size, board meeting and stock ownership on firm performance has been inconclusive, (Christensen et al., 2010) found a negative relationship between role duality and a large board with performance when ROA is used, but positive relationship when Tobin's Q is used.

Importance of corporate governance to increase financial performance ROE, ROA captures the attention of mergers and acquisitions as a step to enter the international market and enter the globalization competition (Berghe, 2002; Malik, Wan, Ahmad, Naseem, & Rehman, 2014; R. La Porta, Lopez-de-silanes, Shleifer, & Vishny, 2000). Studies found that better governance is related to higher firm valuation as peroxide by Tobin's Q (L. D. Brown & Caylor, 2006; Cremers & Nair, 2005)

There different methods to measure Tobins'Q. It is the market value of equity plus the total book value of liabilities divided by the total book value of assets (Darweesh, 2015). Tobins'Q is calculated as the book value of total assets minus the book value of common equity plus the market value of common equity divided by the book value of total assets (Veprauskaite & Adams, 2013) and Tobin's Q is the ratio of the firm's market value to its book value. The firm's market value is calculated as the book value of assets minus the book value of equity plus the market value of equity (Rodriguez-Fernandez et al., 2014).

Abdelkarim & Alawneh (2009) calculated the value of Tobins'Q as the market value of the firm divided by the book value of the total assets. This formula decides if a firm has operational business greater than the assets required to generate cash. The value Tobins'Q reflect the shareholders (current and new) perception about the quality of management and level of satisfaction about the firms. If the value of Tobins'Q is greater than one this mean that investors may pay premium over the of the firm's assets as they anticipated better performance and which will lead to more cash dividend or other shareholders benefits.

For ROA and ROE:

ROA: return on assets, measured by operating profits scaled by total assets (Dincer & Dincer, 2013)

ROE: return on equity, ROE - Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested (Perek, 2009).

The three financial firm performance measures in the study and other studies (R. R. Bhatt & Bhattacharya, 2017; Ehikioya, 2009), namely return on equity (ROE), return on assets (ROA), and Tobin's Q, are considered as proxies for accounting returns and market returns. ROE is an accounting measure used to assess rates of return on shareholder equity and has been used in previous studies to measure firm performance (Heenetigala, 2011) whereas ROA which is also an accounting measure, is used to assess the efficiency of assets employed to measure firm performance in prior studies. Tobin's Q is a measure of market performance, which compares the value of a company as given by financial markets with the value of the company's assets and in theory identifies the marginal efficiency of capital and the financial cost of capital (Abdelkarim & Alawneh, 2009; Tobin, 1978).

2.9 Corporate Governance Variables

In line with the literature review and the availability of data, this study will include the following corporate governance variables:

2.9.1 Ownership Concentration

Corporate governance considers mechanisms to raise the companies' performance and competition ability (CGNA, 2009); one of the most important of these mechanisms is the structure and roles of the board of directors (Torchia, Calabro, & Morner, 2015). Çiftçi (2016) considered that the board of directors plays an important and crucial role in aligning interest between managers and owners interest. One of the key inputs for board structure is the ownership concentration, which leads to power superiority for controlling a firm's goals and performance; ownership concentration shows the proportion of the company shares owned by the greatest shareholders (Darweesh, 2015); in Palestine greatest shareholders are considered as who own at least 5% of the firm's shares (CGNA, 2009).

Studies analyzed firms ownership concentration issue as an important variable affecting the financial performance, concentration mean that few shared holders own the majority of shares and so they can be represented in the boards, and they are controlling firms (Cho & Kim, 2007; Claessens, Djankov, Fan, & Lang, 2002). In United Stat for example, there is evidence that ownership concentration impacts firm performance, shareholders who own the concentrated ownership gain special benefits and have more rights over the firm (Strange et al., 2009).

Paulet & Talamo (2011) said that ownership concentration is related to small economies, where shareholders are not well protected. On the other hand, in large economies as in Turkey, the shareholders are protected due to efficient corporate governance regulations, and there is a stable coordination between board and management (Demirag & Serter, 2003; Mulherin, 2005),

Omran (2009) pointed to the importance of ownership structure to increase the firms' financial performance. He conducted research on a sample of Egyptian firms after privatization and concluded that there is a positive impact of ownership structure and concentration affect the financial performance. He concluded that, the increasing number of foreign investors lead to a higher proportion of outside directors.

The block shares owners are protected by law, they can form the board easily and they can assign executive management according to their needs and benefits. This situation justifies the arising of agency problem (Delgado-García, De Quevedo-Puente, & De La Fuente-Sabaté, 2010; Moin, Guney, & Kalak, 2020; Setia-Atmaja, 2009; Su & He, 2012).

Omran et al. (2008) analyzed ownership concentration in the Arab countries; they conducted research on a sample of 304 firms from four countries (Egypt, Oman, Jordan, and Tunisia). They found that the legal system in these countries does not protect the foreign investors, so they tend to have concentrated ownership in target firms. They found that firms operating in a small economy have more profits and performance; this could be due to the centralization of ownership.

In Spain Delgado-García et al (2010) analyzed a sample of firms and found that ownership concentration leads to better firms' reputation, and it is very important for future planning and expropriation. They found a relation between high level of governance and reputable firms, also the Studies pointed that the Spanish economy is characterized by a high level of ownership.

Studies analyzed and found a significant relationship between ownership concertation and a firm's performance. Ownership concentration considered as one of the main variables that form and decide the level of corporate governance (Abdelkarim & Alawneh, 2009; Adewuyi & Olowookere, 2013; Chang & Leng, 2004; Ciftci et al., 2019; Darweesh, 2015; Delgado-García et al., 2010; Demirag & Serter, 2003; Larcker et al., 2007; Mulherin, 2005; M. Omran, 2009; Paulet & Talamo, 2011; Strange et al., 2009; Su & He, 2012).

2.9.2 Public Ownership (dispersed ownership)

Public-owned shares (dispersed shares) illustrated by shares owners diversification. Public ownership affect ownership concentration and lower the control of block share holders, the analysis of public ownership takes the opposite side of ownership concentration for that there is no much literature about public/dispersed ownership (Çiftçi, 2016).

In Palestine, public ownership is presented by the percentage of a firm's shares that quoted on the stock market and allowed for trade within the market. It does not represent the whole shares, because not all firm's shares are allowed for trade (PEX, 2019a), this description was illustrated also by the general manager of PEX through an interview, and all figures for this public ownership used herein were imported from PEX.

Public ownership exist within each listed firm in the stock market unless there is restriction or block from the stock market, nevertheless there are some reasons for the existence of these dispersed shares, these reasons described by Becht et al.(2007) as following:

1. Small investors whose wealth and purchasing power is small.
2. Large investors desire to mitigate market risk by owning a small amount of shares
3. For liquidity purpose as it is easy to liquid a small number of shares

Tigrel (2014) pointed out that corporate governance is much important for big firms who have more dispersed shares, as it is more apt for corruption. These firms should show more concern for shareholders, board structure, decisions, and do focus on profit maximization.

With ownership concentration, there will be a little conflict with the management, because there is more control, but with dispersed ownership, more conflict will arise if management start to act for their benefits, this justify the rising of agency problem and will result in agency cost. Mang'unyi (2011) pointed that the dispersed ownership lower the power of shareholders to monitor firms, and let owners focus on the market to trade their shares and make profits.

Çiftçi (2016) found a negative relationship between public ownership and firm performance. Berle and Means (1932) said that firms with dispersed ownership tend to be under-perform because these firms hire managers with low control. This is a description of low monitoring from the board over the management.

2.9.3 Corporate Ownership

Investors are willing to invest in stable companies, with higher returns and good governance level. Investors have a higher tendency to capture a large portion of shares to have more power and role in controlling these firms and be able to have a closer monitoring role (Nix, 2012). More investment and large present in ownership will result in reducing the agency cost and will enhance monitoring by exchanging information and experience from their original firms to newly acquired firms (Solomon, Solomon, Joseph, & Norton, 2000).

Ownership structure is a major factor in forming the board of directors, more corporate/institutional ownership means more board members representing these institutions on the firms' boards, resulting in more control. Institutional investors show more concern towards firms control and monitor; to be close to decision making; this will result in reducing agency cost and preserve owners wealth (Chung & Zhang, 2011; Ingley & Walt, 2004; Maug, 1998).

Institutional investors prefer companies with a better level of governance level. The investors conjecture that their companies will require less monitoring and have higher liquidity, nevertheless, they also believe that if they want to monitor, it will be easy for them if they have a large portion of shares (Chung & Zhang, 2011; Mizrahi, 2009).

The presence of institutional investors who have purchased corporate bonds and Sukuk[5] rather than individual investors helps to reduce the cost of debt and the benefit of monitoring increases with the duration of the investment. Also, issuer firms have stronger incentives to monitor the firm's management thereby reducing the cost of debt and consequently mitigating default risk (Barry, Lepetit, & Tarazi, 2011)

Studies found negative significant impact of corporate ownership on firm performance other have positive significant impact (Boubakri & Ghouma, 2010;

[5] Sukuk is the Arabic name for Sharia or Islamic law compliant fixed income securities, also known as Islamic bonds

Çiftçi, 2016). Other study found that there is no significant impact of corporate ownership and firm performance (Mizuno, 2010).

2.9.4 Foreign Ownership

The role of corporate governance is very important for preparing an investment atmosphere to incentify and attract foreign investors, especially for developing countries like in Middle East (Mustafa, 2018). Foreign investors participate in implementing a high level of corporate governance for target firms. New foreign investors are expected to transfer knowledge, experience, and global standards from their home to the new host country, their participation is expected to add more control over firms and integrated with resource dependency theory (Jeon, Lee, & Moffett, 2011; Moin et al., 2020; Zheka, 2005). Moreover, host firms are expected to show the best level of governance implementation within the organization and related parties, they show the most adherence to rules, regulation, and the topmost care for shareholders via transparency and accountability.

Governance is not the major attraction for foreign investors, they expect high dividends for short-term investment (Jeon et al., 2011). Investors search for sustainable firm's performance and they are aware of better corporate governance level for long term investments (Moin et al., 2020).

Foreign ownership is measured as the ratio of foreign shareholding, the more ratio the more confidence from investors towards local firms, also firms with large portion of investors show more commitment toward information disclosure through annual and other periodical reports (Al-amarneh, 2014; Darweesh, 2015; Ghazali, 2010).

Researches show positive and significant effect for foreign ownership on the firm's performance, other were statistically significant and positively correlated with firms performance, others show no significance (Ghazali, 2010; Mizrahi, 2009; Zheka, 2005).

2.9.5 Board Size

Boards are expected to mitigate the effects of agency problem existence in firms. They have major decision-making roles. Board size affect the decisions effectiveness. There is no agreed upon board size in different firms and countries, and there are different guidelines from one country to another (Dwivedi & Jain, 2005; Vintilă & Gherghina, 2012). One of the main board structure (Attributes) is the board size which represents the number of directors assigned to the board (Banks, 2004; Bonna, 2012; Tutun Mukherjee & Sen, 2019; Rodríguez-Fernández, 2015; Schnake, Williams, & Fredenberger, 2006). The size is an important aspect in developing the functions of the board and related committees (Rodríguez-Fernández, 2015).

There is no standard number of directors all over the world. In Palestine, it is stated in the code of governance that board size must be greater than 4 and less than 12 (CGNA, 2009). Banks (2004) mentioned that countries like USA, UK, and Canada have about 12 board member, but in the 1980s size was about 20 to 30 members. Those countries believed that the new board size fits with the firms' mission to address the need for efficiency of the board and contain the needed skills. In other countries like Japan and Germany, the board is considered large because there is the allocation for employees' representatives, size reaches about 40 members.

A large board may not act effectively due to complication in meeting management, decision making, and ensuring effective engagement from all members, other opinions said that a large board will enhance the firm as it will increase the pool of expertise and resources (Goodstein, Gautam, & Boeker, 1994).

Studies analyzed the board size and its influence on a firm's financial performance, Rodríguez-Fernández (2015), Schnake et al. (2006), and Al-amarneh (2014) found a positive relationship between board size and financial performance. They concluded that a larger size helped to provide the needed resources, with different skills and knowledge. Di Pietra et al. (2008) and Goodstein et al. (1994) found that there no evidence about board size and its substantial impact on financial performance. Arosa et al. (2013) and Guest (2009) concluded that large board size has a negative influence on firm performance which could be a result of poor coordination and communication.

2.9.6 Family-controlled board membership

In general, family-controlled firms defined as "firms owned, controlled and operated by members of one or several families" (Perek, 2009). Historically, most of the large firms founded as family businesses. In Turkey as an example majority of companies were found and governed by families, ownership inherited with firms control from generation to the next; as a result, governance and management is highly needed to achieve continuous development for these companies (Fan & Leung, 2018; Martin-reyna & Duran-encalada, 2012; Perek, 2009). The case of Turkey replicated in other countries like Taiwan, where many companies are held by families who control decisions and shareholders meeting according to their priorities (Hua, 2003). Hua pointed that this situation is against governance guidelines and represents an unstable environment that makes an efficient balance between board and management.

Banks (2004) pointed out that a high concentration of family-controlled firms' need careful implementation of governance roles, owners are reluctant to change because these changes might reflect their authorities and position.

Setia-Atmaja (2009) and Kim (2006) found a positive effect on financial performance for family-controlled firms due to the high convergence of interest between management and boards and because of their influence in decision making. Other studies concluded negative effect of family-controlled firms over the firm performance, this due to focusing by family shareholders on their private benefits and to conflict with management (Tutun Mukherjee & Sen, 2019; Villalonga & Amit, 2006).

2.9.7 Number of Board Committees

Board committees are expected to enhance the role of the board and help in developing and promoting the firms' governance (Sarhan et al., 2018; Weir, Laing, & Mcknight, 2002). Accordingly, these committees are supposed to reduce risks, enhance firm's performance and reduce and agency problem between board and management. There is no specific number of committees. In Palestine, it is preferable that the board form Audit, Remuneration, and Governance committees (CGNA, 2009). Boards can add other committees like investment, risk, and others, it is the decision of the board according to their needs. Some boards merged these committees by merging tasks, like risk and governance, audit and risk, and so on.

In line with the agency model, the Cadbury Report (1992) discussed that board committees are an additional control mechanism to increase accountability and obtain the best financial management and will increase shareholders' rights. These committees formed in accordance with the policies and rules stated by the board, showing the scope, authority, composition, responsibilities, duties, and duration for each committee (Darweesh, 2015).

Researches show a negative effect of the number of committees on financial performance especially when measured with Tobin’s q (Bonna, 2012). Other research found a positive impact for number of committees on firm performance (Darweesh, 2015).

2.9.8 Busy Board

A busy board member is the member who is also member in another three boards (Masulis et al., 2012). Herrera-Echeverri et al. (2018) considered a busy board member is a member who simultaneously belongs to more than five boards.

A busy board variable is a percentage calculated by the number of busy board members over the board size (Di Pietra et al., 2008). It is concluded that the busy board members influence the firms’ performance. Other research by Fich & Shivdasani (2006) and Core et al. (1999) found that busy board members have a negative impact on firm performance and weak corporate governance.

The busy board members are expected to have a positive influence on financial performance due to their reputation and diversity of boards experience, in addition to a wide list of networking with other firms. a research by Elnahass et al. (2020) has another conclusion, he did not found a significant effect due to the busy board members.

2.9.9 Audit Committee Independence

The audit committee is considered the most important committee. it help the board to monitor the management by preparing clear and transparent periodical and none-periodical reports about firm performance and operations. Different decisions are taken by the board depend on audit reporting (Adewuyi & Olowookere, 2013; Bonna, 2012; Darweesh, 2015; Hamid, Othman, & Rahim, 2015; Klein, 1998). Since 1978, the New York Stock Exchange has required all listed companies to have audit committees composed solely of independent directors (Cadbury, 1992). In Palestine audit committee comprises at least three members, and the committee head should be an independent member (CGNA, 2009).

The code of governance in Palestine complies with World Bank recommendations (WorldBank, 2010). The audit committee should consist independent members and they should have enough level of knowledge and experience in the industry and financial system. This means that at least 50% of the members of the audit committee should be independent members. Krambia-kapardis & Psaros (2006) said that audit committee should be independent and consist of at least two non-executive directors. Moreover, the committee head should have, accounting and finance experience. They added that duties of the audit committee include but are not limited to, recommend external auditors review internal audit department reports and coordinate with external audit agency(s).

An efficient audit committee provide reliable and periodical financial disclosure; these reports have high concern from shareholders and investors. The audit committee's independence is supposed to provide compliance with financial disclosure and approved regulations (Elnahass et al., 2020).

Research show a positive association between audit committee independence and firms' performance. The increased percentage of independent members reflected positively on financial performance (Klein, 1998; Setia-Atmaja, 2009). Koh et al. (2007) proposed that independence of the board and audit committee are very important to enhance firms' governance by enhancing financial reporting.

2.9.10 **Board Composition**

Board composition is so important in forming boards. It is about executive board members (inside board members) who are on the board and their percentage to the board size (Klein, 1998; Shahrier, Ho, & Gaur, 2020). This collection of members identify the alignment between inside and outside directors and how the interaction is managed between management and shareholders because the insiders are part of the board and management missions (Rose, 2007).

According to stewardship theory, the mixed board structure from inside and outside make an efficient leadership and will maximize the firm performance which will benefit the shareholders' wealth (Heenetigala, 2011).

Firms increased inside directors’ presentation to show higher yield due to higher engagement on firms operations. Insiders existence considered an overlapping layer between the board and the management (Klein, 1998; Shahrier et al., 2020).

Arosa et al., (2013) pointed that the existent of executive management in the board has a positive influence on financial performance due to their knowledge about the firm and information sharing for board decisions on strategic issues.

2.9.11 **Board Independence**

Independent directors serve firms' boards to segregate control and monitor from an independent point of view (Marashdeh, 2014). Researches described the independent board member as a referee who ensures that the board do an ultimate control over the firm and monitor decision-making. Independent directors are supposed to have needed knowledge and experience related to firm concern (Fama, 1980; Herda, Taylor, & Winterbotham, 2012).

Independent members on the board structure help in the judgment of firms’ strategies and help to control budget for human resources, performance, especially for tasks where there might be a conflict of interest between management and shareholders (Committee, 2000; OECD, 2004; Popescu, 2006).

Cadbury (1992) recommended assigning a minimum of three non-executive directors, where two of them should be independent. In Palestine, it is preferable that a board include two independent members. Moreover, code in Palestine considered an independent member who does not have any relation with the firm and not influenced by any external considerations and abides by corporate governance principles (Committee, 2009). In UK code of corporate governance recommends at least half of board members are independent (Financial Reporting Council, 2016). In Italy, it is recommends two independent members if board size is greater than seven while in Japan and Germany there should be at least one independent member (Minciullo, 2019).

P. T. Lin et al. (2015) consider board is independent if the number of independent members reaches the recommended number by the regulator. Other researches represented the board independence by the fraction of independent board members to the board size (Chou, Chung, & Yin, 2013; Darweesh, 2015; Setia-Atmaja, 2009; Su & He, 2012). These researches show a positive relationship with firm performance. Koh et al. (2007) added that board independence functions are important governance attributes of the financial reporting process. The board independence herein will consider as dummy variable, it will be one if number of independent members greater or equal to two which is integrated with the preferred number by code of corporate governance in Palestine (CGNA, 2009).

2.9.12 <u>Number of Board Meetings</u>

Board meetings are important to perform board duties, like control and decision-making. The board need to meet with management to listen and to discuss progress reports and for other related issues. Planned board meetings enhance board efficiency; also, boards may conduct urgent meetings for exceptional cases.

The regular meeting is considered important to governance abide, members are expected to attend and participate efficiently to do the needed pre-meeting and meetings tasks. Meetings help board to supervise the management and be aware of all updates and to do needed actions (Eluyela et al., 2018; Min & Chizema, 2018).

Most board decisions are taken through the board meeting, it is considered important for each member to participate, this will reflect adherence to governance by showing accountability. Meetings are also important for outside directors, attending the board meetings update members about firm status, which reflect in enhancing firms' effectiveness and efficiency (Chou et al., 2013; Eluyela et al., 2018; Rodriguez-Fernandez et al., 2014).

Researches show the positive effect of number meetings on firm performance but others show negative effect (Chou et al., 2013; Vafeas, 1999). In Palestine, there is no clear instruction for the number of board meetings, but it is noticed that most of listed companies board met every two months, some have different frequencies (PEX, 2019a).

2.9.13 **Board Gender Diversity**

Board diversity is an important aspect to ensure efficient and active control over firms, diversity is not code but it is part of good corporate governance. It is not mentioned clearly that gender diversity means female or male members will have an advantage, but research shows that female members in the board make the board more efficient especially when there are social issues (Konrad, Kramer, & Erkut, 2008). The existence of female board members will increase the diversity of board members and will enhance the relationship between outside directors and firms' operational performance (Alabede, 2016; Schnake et al., 2006).

Board diversity support efficient monitor and control. Diversity includes gender, educational, cultural, and other aspects. It supports having members from different backgrounds. Researches show positive influence towards better governance and firm performance by including female board members, researches confirm that it is not only about gender but also about qualifications (Campbell & Mínguez-Vera, 2008; Duygu Acar Erdur & Kara, 2015; Rose, 2007; Torchia et al., 2015)

Coffey & Wang (1998) pointed out that board gender diversity means the percentage of female members to the board size. Female board members recommended for public affairs and social committees other than the finance committee. Bilimoria & Piderit (1994) and Abdullahi et al. (2018) concluded that female members are an advantage for the board which will add more qualified members for different related committees and board functions. Studies have different conclusions that female members do not have a significant influence on firm performance, so it is not about gender, it is about a member qualification rather than gender diversity (Çiftçi, 2016; Rose, 2007; Schnake et al., 2006).

2.9.14 Duality of CEO and Chairman

One of the main governance principles in Palestine is the separation of duties and the authority delegation (Committee, 2009). According to code of governance, chairman and board hire CEO and control over him/her. In the case of duality there is no integration for governance principles (Heenetigala, 2011). Vintilă & Gherghina (2012) argued that in duality the management is part of control process over the firm and the board itself. They said that duality might lead to less financial performance. Another opinion pointed that when duality then that person will support the firm performance and decision-making due to less conflict between board and management (Fama & Jensen, 1983a; Vintilă & Gherghina, 2012). In USA shareholders and governance roles support and push US firm to separate CEO and chairman, justifying that separation reduce power concentration, and firms act more effective and apply governance principles (Brickley et al., 1997)

Al-amarneh (2014) studied the Jordanian banks and concluded that separation is not a significant issue to banks' performance, but it is important for governance and firm sustainability.

Researches fiund negative effect of CEO duality on firm performance (Çiftçi, 2016; Delgado-García et al., 2010; Veprauskaite & Adams, 2013). Kang & Zardkoohi (2005) concluded that duality might support positive firm performance in specific conditions. While Dalton & Dalton (2011) concluded that no evidence supports the effect of CEO and chairman duality on firm performance.

2.9.15 Control Variables

Prior research show that Leverage, firm size, and firm age are important to determine the level of firm governance, researchers control for these variables while assessing corporate governance characteristics’ effect on company performance, the three variables added to the model to avoid the bias. Studies concluded that, firms with higher financial performance, lower leverage, and older age and larger size are less likely to fail (Hsu & Wu, 2014; Hua, 2003; Marashdeh, 2014; Mizrahi, 2009)

2.9.15.1 Leverage

Leverage is the ratio of total debts to total assets (Hsu & Wu, 2014). There is no agreed conclusion from studies about leverage significance, either positively or negatively, on firm performance. Jensen & Meckling (1976) pointed that leverage mitigates the agency problem as one of the internal governance mechanisms, as higher debt will limit managers from using free cash in the non-profitable investment. On the other side increased leverage may have a negative effect on financial performance as it will increase risk which will affect the firm value and limit the management from new investment opportunities when the debit is needed because it is already used (Marashdeh, 2014). Debit will increase firm expenses (interests of debit) if a debit is not used in investment opportunities.

Çiftçi (2016) found that a lower Leverage rate would result in better performance as this will allow the manager to use free cash in new high return investment opportunities.

2.9.15.2 Firm Age

Firm age is the number of years from the year of firm establishment to the current year (Tarun Mukherjee, Swami, & Wang, 2019; Tigrel, 2014). It gives an advantage to the firm from a customer loyalty perspective. firms show better financial performance over years from an accounting point of view. But if financial performance is considered from the marker point of view younger firms will have more yields due to a greater tendency for shares trading (Çiftçi, 2016; Guan, Gao, Tan, Sun, & Shi, 2021). Marashdeh (2014) added that younger and smaller firms may have better growth opportunities as it is still in the earlier phases but may have more in the market according to different conditions.

2.9.15.3 Firm Size

Firm size can be calculated using different formulas

- Logarithmic transformation of the market value of equity (market capitalization), measured at the fiscal year (Masulis et al., 2012).
- Total number of employees that worked in the firm for a year (Loecher, 2000; Tigrel, 2014)
- Market capitalization and book values of the total assets of the firm (Heenetigala, 2011).
- Natural logarithm of total assets (Bhagat & Bolton, 2013; Veprauskaite & Adams, 2013).
- Natural logarithm of total assets (Çiftçi, 2016),
- Natural logarithm of sales (Dixon-Fowler, 2010).
- Total assets of the firm (Ehikioya, 2009).
- Classification of firm (low, medium, large) according to number of employees (Arda, 2016; Shank, Hill, & Stang, 2013).

Farhan (2016) added that firm size calculated according to different criterias like the number of employees and ownership equity. In USA, France a company considers small if number of employees is up to 500 employees while in Germany and Denmark a firm is small if there are up to 50 employees. Regarding the owners' equity, in Japan as example, a firm is small if the equity is up to 10M USD, while in Jordan it is 50T USD.

Fawawneh (2013) and Sumairi (2014) pointed that firm size in Palestine is considered according to the number of employees as following, which is used in this research:

- Small: up to 5 employees
- Medium: from 6 to 19 employee
- Large: more than 19 employee

Researches show that is a relation between firm size and financial performance (Diaz-Fernandez, Bornay-Barrachina, & Lopez-Cabrales, 2015; Dixon-Fowler, 2010; Fich & Shivdasani, 2006b)

2.9.16 Summary of References For Selected Variables

Many references from previous literature reviewed and used corporate governance variables. In this study Table 2-5 contain list of references for each variable as quick access for any further information.

Table 2-5: Corporate Governance variables, references

Variable	References
Ownership Concentration	(Paulet & Talamo, 2011), (Mulherin, 2005) (Demirag & Serter, 2003) (Su & He, 2012) (Delgado-García et al., 2010) (Setia-Atmaja, 2009) (Abdelkarim & Alawneh, 2009) (Chang & Leng, 2004) (Mertzanis et al., 2019) (Chang & Leng, 2004) (Çiftçi, 2016) (Larcker et al., 2007) (Darweesh, 2015) (Adewuyi & Olowookere, 2013) (Gunarsih et al., 2018) (Marashdeh, 2014)
Public Ownership	(Çiftçi, 2016) (Bonna, 2012) (Larcker et al., 2007) (Darweesh, 2015)
Corporate Ownership	(Mertzanis et al., 2019) (Çiftçi, 2016) (Bonna, 2012) (Darweesh, 2015)
Foreign Ownership	(Mertzanis et al., 2019) (Çiftçi, 2016) (Bonna, 2012) (Mizuno, 2010) (Darweesh, 2015) (Marashdeh, 2014)
Board Size	(Rodríguez-Fernández, 2015) (Schnake et al., 2006) (Tutun Mukherjee & Sen, 2019) (Rodriguez-Fernandez et al., 2014) (Mertzanis et al., 2019) (Bonna, 2012) (Masulis et al., 2012) (Aggarwal et al., 2016)

	(Darweesh, 2015) (Di Pietra et al., 2008) (Y. F. Lin et al., 2011) (Adewuyi & Olowookere, 2013) (Gunarsih et al., 2018) (Marashdeh, 2014)
Family-Controlled Board Membership	(Tutun Mukherjee & Sen, 2019) (Çiftçi, 2016)
Number of Board Committees	(Heenetigala, 2011) (Bonna, 2012) (Darweesh, 2015) (Darawsheh, 2014) (Christensen et al., 2010) (CGNA, 2009)
Busy Board	(Larcker et al., 2007) (Masulis et al., 2012) (Di Pietra et al., 2008) (Fich & Shivdasani, 2006b)
Audit Committee Independence	(Setia-Atmaja, 2009) (Koh et al., 2007) (Aglietta, 2008) (Aggarwal et al., 2016) (Darawsheh, 2014) (Adewuyi & Olowookere, 2013) (Ararat et al., 2017) (CGNA, 2009)
Board Composition	(Rose, 2007) (Klein, 1998) (Heenetigala, 2011) (Mertzanis et al., 2019) (Çiftçi, 2016) (Fich & Shivdasani, 2006b) (Marashdeh, 2014)
Board Independence	(Fama, 1980; Herda et al., 2012) (Popescu, 2006) (Setia-Atmaja, 2009) (Tutun Mukherjee & Sen, 2019) (Rodriguez-Fernandez et al., 2014) (Çiftçi, 2016) (Masulis et al., 2012) (Aglietta, 2008) (Aggarwal et al., 2016) (Bhagat & Bolton, 2013) (Darweesh, 2015) (Y. F. Lin et al., 2011) (N. Kumar & Singh, 2012) (Aggarwal et al., 2016)
Number of Board Meetings	(Rodriguez-Fernandez et al., 2014) (Larcker et al., 2007) (L. D. Brown & Caylor, 2006)
Board Gender Diversity	(Coffey & Wang, 1998) (Schnake et al., 2006) (Bilimoria & Piderit, 1994) (Tutun Mukherjee & Sen, 2019) (Mertzanis et al., 2019) (Çiftçi, 2016)
Duality of CEO and Chainman	(Tutun Mukherjee & Sen, 2019) (Rodriguez-Fernandez et al., 2014) (Heenetigala, 2011) (Mertzanis et al., 2019)

	(Çiftçi, 2016) (Aglietta, 2008) (Aggarwal et al., 2016) (Bhagat & Bolton, 2013) (Y. F. Lin et al., 2011) (Gunarsih et al., 2018) (Marashdeh, 2014)
Leverage	(Abdelkarim & Alawneh, 2009) (R. R. Bhatt & Bhattacharya, 2017) (Çiftçi, 2016) (Bonna, 2012) (Marashdeh, 2014)
Firm Age	(R. R. Bhatt & Bhattacharya, 2017) (Çiftçi, 2016) (Marashdeh, 2014) (Tigrel, 2014)
Firm Size	(Chang & Leng, 2004) (R. R. Bhatt & Bhattacharya, 2017) (Chang & Leng, 2004) (Çiftçi, 2016) (Masulis et al., 2012) (Fich & Shivdasani, 2006b) (Marashdeh, 2014)

CHAPTER THREE: RESEARCH DESIGN

3.1 Overview on The Research Design

Most studies, which investigated the relationships between corporate governance and financial performance, have used a positivist research paradigm of quantitative techniques. Hypotheses are developed based on the notion of the impact of the corporate governance on the firm performance that will be investigated and empirically examined using the tools of analysis and the theoretical conjecture (Marashdeh, 2014).

Researches styles are inductive, deductive and inductive. The inductive approach is to draw a general conclusion from observations while deductive approach is related to hypothesis that will be tested against predictions (Adams, Khan, Raeside, & White, 2007). Another approach declared by (Mark Saunders, Lewis, & Thornhill, 2015) is abductive which is known to generate testable conclusions.

This research is deductive and it is a structured approach, use quantitative date, the research will follow the following steps

- Deduct hypothesis
- Express the hypothesis operationally
- Test the hypothesis
- Examine the specific output

This study is considered a quantitative research, which is generally associated with positivism and usually associated with a deductive approach, especially when used with predetermined and highly structured data collection techniques and focus on using data to test a theory(Colin Robson & McCartan, 2016).

Quantitative research examines relationships between dependent and independent variables, which are measured numerically and analyzed using a range of statistical techniques (Mark Saunders et al., 2015).

The study focused on different parameters that reflect the level of governance like board structure, ownership concentration, and CEO duality. Variables vary from study to another, it noticed that there is no approved governance index in developing countries especially in the MENA region (Bonna, 2012; Çiftçi, 2016; Heenetigala, 2011; Perek, 2009).

This research will follow a descriptive and statistical method to analyze the data. This chapter will describe the research model, hypothesises, methodology, the target population, sampling method, data sources/collection, and data analysis according to the hypothesis description.

3.2 Research Model

Most studies, which investigated the relationships between corporate governance and financial performance, have used a positivist research paradigm of quantitative techniques to analyze the data collected from secondary sources.

According to (Bonna, 2012; Çiftçi, 2016; Darweesh, 2015; Heenetigala, 2011; Perek, 2009); they all focused on different parameters/variables that represent the level of governance like board structure, ownership concentration, CEO duality. The review of previous studies in Palestine and other countries in the MENA region shows that the effect of different corporate governance attributes on the company's financial performance not been studied sufficiently.

In line with literature review and considering study limitations, corporate governance attributes/variables selected that show relation to the firm's performance. The selected variables categorized into three groups, which are ownership structure, board attributes and control variables, below each group contains the related variables:

1. Group 1: Ownership structure
    a. Ownership concentration
    b. Public Ownership
    c. Corporate ownership
    d. Foreign ownership
2. Group2: Board Attributes
    a. Board size
    b. Family-controlled board membership

c. Number board committees
d. Busy Board
e. Audit committee independence
f. Board composition
g. Board independence
h. Number of Board meetings
i. Board gender diversity (Proportion of female members)
j. Duality of CEO and chairman

3. Group3: Control variables

   a. Leverage
   b. Firm Age
   c. Firm Size

In line with literature and selected variables, Table 3-1 show variables properties and calculation description.

Table 3-1: List of Independent and control variables

Group	Variable Name	Description	Data Source	Values
Ownership Structure	Ownership Concentration	Percentage of shares owned by board members where each of them own at least 5%	Annual reports	0 to 1
	Public Ownership	Percentage of Free floating shares (restricted and unrestricted)	PEX	0 to 1
	Corporate Ownership	Percentage of shares owned by corporates	PEX	0 to 1
	Foreign Ownership	Percentage of shares owned by Foreigners	PEX	0 to 1
Board Attributes	Board Size	number of board members	Annual reports	5 to 15
	Family-controlled board membership	Percentage of (Number of Family board Members/Board size)	Annual reports	0 to 1
	Number of Board Committees	Number of board committees	Annual reports	0 – 9
	Busy Board	Percentage (Number of busy board members/Board size)	Annual reports	0 to 1
	Audit Committee Independence	Value is 1 if more that 50% of the committee are independent board members else Value is 0	Annual reports	0 or 1
	Board composition	Percentage (Number of Executives in the board/Board size)	Annual reports	0 to 1
	Board Independence	Board considered independent if at least two members are independent	Annual reports	0 or 1
	Number of meetings	Number o annual board meetings	Annual reports	0 to 99
	Board gender diversity	Percentage (Number of female board members/Board size)	Annual reports	0 to 1
	Duality of CEO and Chairman	Value is 1 if CEO is also the chairman else value is 0	Annual reports	0 or 1
Control Variables	Leverage	Total debit/Total Assets	Annual Financial report	0 to 1
	Firm size	According to number of employees	Annual Financial report	1,2,3
	Firm age	Years between annual report year and establishment year of the company	Annual Financial report	up to 99

Based on the literature review there are different methods to calculate financial performance, the most used ones that have been analyzed and impacted by corporate governance are: return on assets (ROA), return on equity (ROE), and Tobins'Q (Darweesh, 2015; Heenetigala, 2011; Y. F. Lin et al., 2011).

The dependent variables that represent the financial performance are ROA, ROE, and Tobin's Q (Table 3-2). The three of them or less has been select by different researches (Abdelkarim & Alawneh, 2009; Çiftçi, 2016; Darweesh, 2015; Heenetigala, 2011)

Table 3-2: Financial performance indicators

Variable Name	Description
Return On Assets (ROA)	Return devided by total assets
Return On Equity (ROE),	Return devided by equity
Tobins'Q	Firm market value

The following research model show the dependency relationship between group1, group2, and group3 variables, which are the independent variables. In addition, the financial performance variables, which are the dependent variables.

In the testing phase, the independent variables described in the three groups tested against each dependent variable, also the data tested for correlation between variables. Figure 3-1 show the research model.

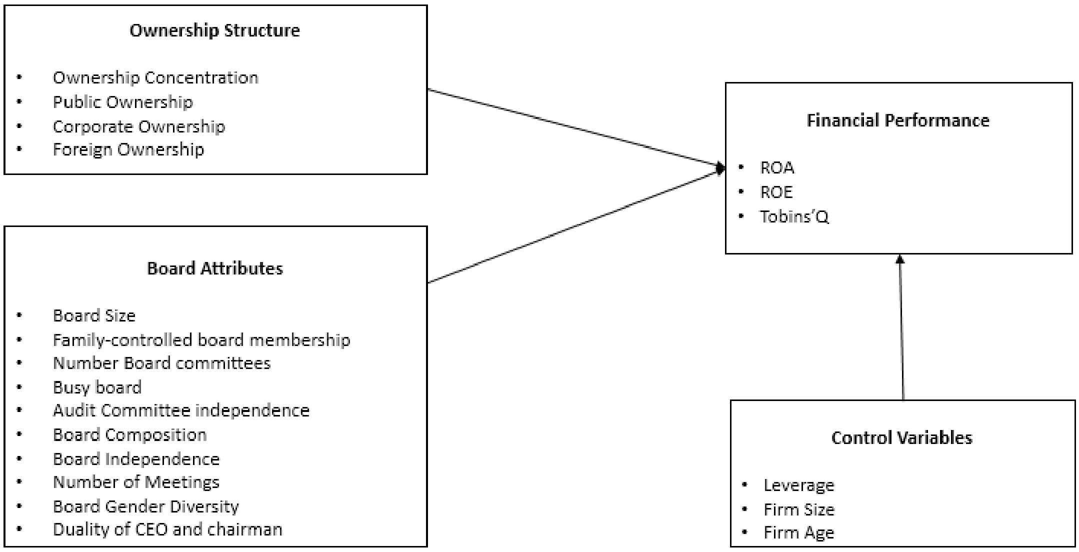

Figure 3-1: Research model

3.3 Research Hypotheses

Based on the research model (Figure 3-1) the following alternative hypothesizes design:

H1: Ownership concentration has an impact on financial performance

H2: Public Ownership has an impact on financial performance

H3: Corporate ownership has an impact on financial performance

H4: Foreign ownership has an impact on financial performance

H5: Board size has an impact on financial performance

H6: Family-controlled board membership has an impact on financial performance

H7: The number of board committees has an impact on financial performance

H8: Busy Board has an impact on financial performance

H9: Audit committee independence has an impact on financial performance

H10: Board composition has an impact on financial performance

H11: Board independence has an impact on financial performance

H12: Board meetings has an impact on financial performance
H13: Proportion of female members has an impact on financial performance
H14: Duality of CEO and Chairman has an impact on financial performance

3.4 Methodology

This research is descriptive and analytical. The purpose of this study is to examine the effect of corporate governance on financial performance. Effects of corporate governance mapped through different independent variables selected according to the in-depth literature review and with limitation to data availability for target firms. The nature of data is cross-sectional and longitudinal (time series) it is called panel data and allows to test the effect of corporate governance variables on the firm performance.

There are no generally accepted corporate governance methodology or one accepted governance index by the different countries (Darweesh, 2015). Corporate governance discussed in many researches, for some countries there is a corporate governance index like in Turkey and Malaysia (Çiftçi, 2016; Ghazali, 2010), in other researches it is designed for a list of corporate governance variables and considered as an index for research purposes, but it is not accredited by related countries (Bonna, 2012; Darweesh, 2015).

Since the main purpose of this study is to examine the effect of corporate governance on firms' financial performance for the study duration. The research model designed according to the literature review and data availability. This is the case for other researches for different countries (Bonna, 2012; Çiftçi, 2016; Darweesh, 2015; El-Nabi, 2016; Heenetigala, 2011; Hua, 2003; Marashdeh, 2014; Mujahed, 2017; Perek, 2009).

For the qualitative part, semi-structured interviews arranged with different chairpersons in Palestine for large firms. They are key influencers on code of governance development.

For the quantitative part of the data, a research model designed containing three groups, depending on the previously discussed literature, the model represent the level of corporate governance:

1. Ownership structure (4 variables)
2. Board attributes (10 Variables)
3. Control variables (3 variables)

To measure the financial performance, ROE, ROA, and Tobin's' q used which were used by different studies.

Independent Variables, Measurement method, and Types are listed In Table 3-3

Table 3-3: Independent Variables, Measurement method and Types

Variable Name	Type	Calculation
Ownership Concentration	Ratio	Percentage of shares owned by board members where each of
Public Ownership	Ratio	Percentage of Free-floating shares (restricted and unrestricted)
Corporate Ownership	Ratio	Percentage of shares owned by corporates
Foreign Ownership	Ratio	Percentage of shares owned by Foreigners
Board Size	Number	Number of board members
Family-Controlled Board	Ratio	Percentage of (Number of Family board Members/Board size)
Number of Board Committees	Number	Number of board committees
Busy Board	Ratio	Percentage (Number of busy board members/Board size)
Audit Committee	Dummy	Value 1 if more than 50% of the committee are independent
Board composition	Ratio	Percentage (Number of Executives in the board/Board size)
Board Independence	Dummy	Value 1 if at least two members are independent else value is
Number of Meetings	Number	Number of board annual meeting excluding the general
Board Gender Diversity	Ration	Percentage (Number of female board members/Board size)
Duality of CEO and Chairman	Dummy	Value is 1 if CEO is also the chairman else value is 0
Leverage	Ratio	Total debit/Total Assets
Firm Size	Number	Value 1,2 or 3 according to number of employees
Firm Age	Number	Years between annual report year and establishment year of

3.5 Population

The study specifically focused on the Palestinian listed companies in PEX. Palestine is considered a small economy and the number of listed firms are small comparing to other markets around the world and in the Middle East. In Turkey for example 402 listed companies as of December 2019 (Guvenc, 2019), in Jordan there are 195 listed companies (Anani, 2018), in Palestine, there are only 48 listed companies (Appendix B: Listed Firms in PEX).

The investment environment with a market capitalization of about $3,758 million across five main economic sectors; banking and financial services, insurance, investments, industry, and services. Most of the listed companies are profitable and trade in Jordanian Dinar, while others trade in US Dollars. Figure 3-2, show number and percentage of Palestinian listed firms as of December 2019.

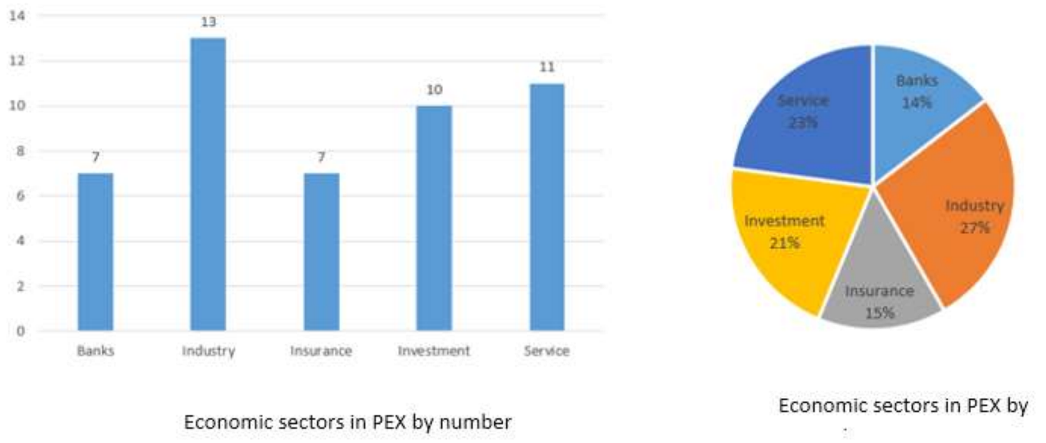

Figure 3-2: Number and percentage of Palestinian Listed firms according to sector

Industry sector is the largest one by number of firms. The services sector considered the largest sector by capital and banking show the highest trading volume in 2019, see Figure 3-3 and Figure 3-4 consequently (PEX, 2019b).

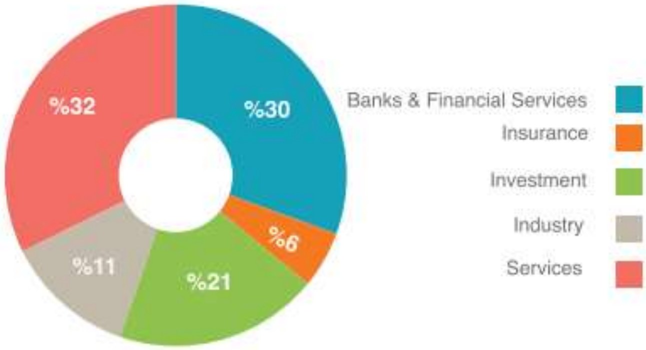

Figure 3-3: Distribution of Palestinian Market capital over firms sectors

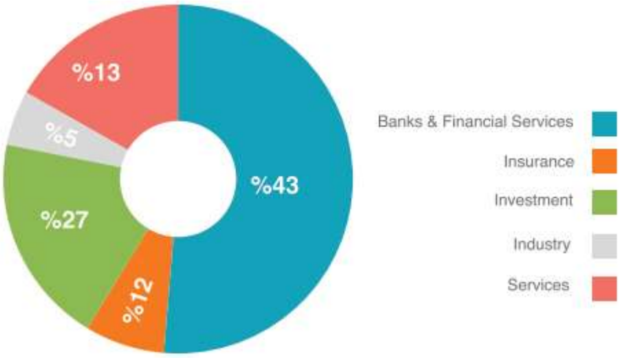

Figure 3-4: Trading volume in 2019 for Palestinian List Companies

3.6 Data Sampling

This research used a judgmental sampling, the sample is selected for a particular purpose for a particular period (Adams et al., 2007). To test for the effect of corporate governance on firms' financial performance data collected for selected firms from different sources and filled in panel data structure. Th research sample covers 40 firms out of 48 for the years 2013-2019. The data for eight firms through the period 2013-2019 and data before 2013 were excluded because of missing data.

Table 3-4, shows the number of sample firms' distribution by sector, eight firms excluded because of missing data. Table 3-5 show the forty selected firms.

Table 3-4 Sample by sector

Sector	Number of Firms
Banks	7
Industry	10
Insurance	7
Investment	8
Service	8

Table 3-5: Selected Firms

Sector	Code	Firm Name
Banks	AIB	Arab Islamic Bank
Banks	BOP	Bank Of Palestine
Banks	ISBK	Palestine Islamic Bank
Banks	PIBC	Palestine Investment Bank
Banks	PSE	Palestine Securities Exchange
Banks	QUDS	Al-Quds Bank
Banks	TNB	The National Bank
Industry	APC	Al-Aqariya Trading Investment
Industry	AZIZA	Palestine Poultry
Industry	BPC	Birzeit Pharmaceuticals
Industry	ELECTRODE	Al Shark Electrode
Industry	GMC	Golden Wheat Mills
Industry	JCC	Jerusalem Cigarette
Industry	JPH	Jerusalem Pharmaceuticals
Industry	NAPCO	National Aluminum And Profile
Industry	NCI	The National Carton Industry
Industry	VOIC	The Vegetable Oil Industries
Insurance	AIG	Ahliea Insurance Group
Insurance	GUI	Global United Insurance
Insurance	MIC	Al Mashriq Insurance
Insurance	NIC	National Insurance
Insurance	PICO	Palestine Insurance
Insurance	TIC	Al-Takaful Palestinian Insurance
Insurance	TRUST	Trust Insurance Company
Investment	AQARIYA	Al-Aqariya Trading Investment
Investment	ARAB	Arab Investors
Investment	JREI	Jerusalem Real Estate Investment
Investment	PADICO	Palestine Development & Investment
Investment	PID	Palestine Investment & Development
Investment	PIIC	Palestine Industrial Investment
Investment	PRICO	Palestine Real Estate Investment
Investment	UCI	Union Construction And Investment
Service	ABRAJ	Al-Wataniah Towers
Service	AHC	The Arab Hotels
Service	NSC	Nablus Surgical Center
Service	OOREDOO	National Telecom
Service	PALTEL	Palestine Telecommunications
Service	PEC	Palestinian Electricity Company
Service	RSR	The Ramallah Summer Resorts
Service	WASSEL	Palestinian Company For Distribution & Logistics Services

The selection of 2013-2019 periods motivated by the (a) availability of financial statements, (b) availability of board structure, (c) availability of ownership structure and financial information available over this period to do the planned tests such as ROA, ROE, and Tobins'Q.

Corporate governance and financial data for the selected firms through the research period 2013-2019 are available on the firms', PEX and PCMA websites.

The selected firms considered newly established; there are 28 out of 40 selected firms established after the political agreement in 1993, which yields to the establishment of Palestinian National Authority (PNA). After new circumstances in Palestine, investors were encouraged to invest in new firms (Figure 3-5). The legal environment created suitable conditions for the establishment of new firms. Another important reason is the customer demand for new services which were incapable before the establishment of PNA. There were new stablished firms to satisfy customer's needs, like telecom, banks, and insurance companies.

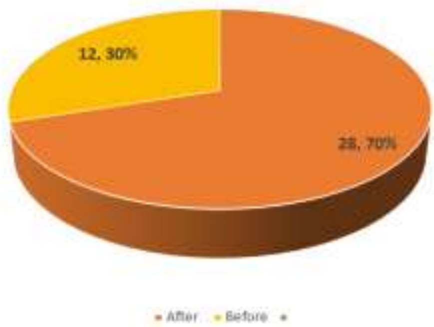

Figure 3-5: Firms distribution before and after PNA establishment

Sample characteristics regarding firm size show that majority of the firms are large firms[6] 83%, Figure 3-6 show distribution of firm according to firm size.

[6] Large firm is a firm with more than 19 employees

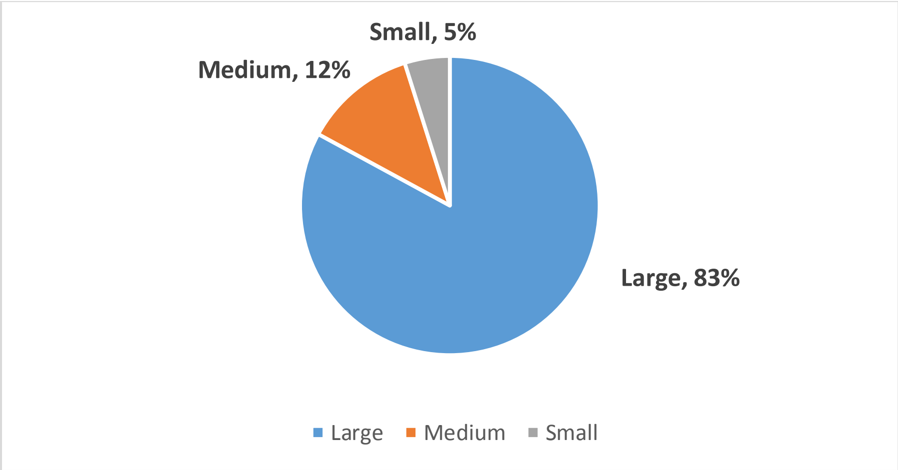

Figure 3-6: Firms distribution over firm size

Since the establishment of PEX there are 48 listed firms on average, which mean that there are about 1200 firms records. This study analyzed firms' data for the period 2013-2019 for 40 firm, due to data availability.

3.7 Data Collection design – Instruments

Rigorous studies directed at corporate governance have used different corporate governance instruments and there is no one approved mechanism to measure corporate governance/ Some countries developed corporate governance index other still not (Bonna, 2012).

For this research, two data collection instruments used:

1. Data table designed that matches the research model, it include fields and description for each field.
2. Semi-structured Interviews, There were predesigned questions but through interviews, questions can be added as required (Colin Robson & McCartan, 2016). Interviews were flexible, questions asked according to the situation, firm, and the involvement of the interviewee with corporate governance.

3.8 Data Organizing

The data collected from different sources, Annual reports, PEX website, PCMA website and from firms' websites. Data represent the periods 2013-2019. It is important to develop the data file to contain all fields and their values for the whole period. At the data collection and entry phase, an excel file is created and filled row by row while reading and different data sources. Microsoft excel used for data entry, and to run different filtering and sorting options.; It is good for doing the needed calculations for ROA, ROA, Tobins'Q; STATA software used for statistical analysis and hypothesis testing.

Most of data collected manually from firms' annual reports, other data received from PEX from PCMA and firms websites. Data organized and validated for any missing, replication or wrong entry. Data file designed in a good manner and exported to STATA.

STATA software used for data analysis to describe and summarize the data, to address research questions and to test hypotheses.

3.9 Data Collection

3.9.1 Secondary Data

This study used public figures collected from firms' annual reports, which are considered as the main source of data. Pava & Krausz (1996) pointed out that publicly disclosed financial information about financial and non-financial data are considered good reference.

Different researches considered the firms' annual reports and firms' websites as a trusted source of data (Çiftçi, 2016; Darweesh, 2015; Feneir, 2019; W. Li et al., 2020). Firms' annual reports are considered valid because they are audited by accredited audit agencies, and the included information is considered sensitive, any wrong information may affect the firm reputation, in Palestine PEX required signed documents from audit agencies.

About 415 annual reports imported, reviewed and checked, fetching the needed data and filled it in the data file. Other data got from PEX after coordination with needed parties.

Choosing data from annual reports will lead to a robust study (Kyere, 2020) because it will contain all data, accordingly, the period 2013-2019 is selected. As mentioned earlier there are 48 firms listed in PEX, but the collected data for 40 firms as eight firms excluded due to missing data through this period.

Colin Robson and McCartan (2016) pointed that there are the time dimension for data collection, cross-sectional designs, longitudinal designs, and retrospective designs:

- Cross-sectional designs: data collected at a single point of time.
- Longitudinal designs: the data collected at more than one point of time or period, data collection occurs for series of time to check trend, in a panel design same participant checked over time as in this research.
- Retrospective design uses existing data that have been recorded for reasons other than research

Data in this research is cross-sectional and longitudinal, where data for each listed firm collected seven times from 2013 to 2019; a total number of firms is 40 so panel data representing the firms data with 280 records.

3.9.2 <u>Primary Date – Interviews</u>

Interviewing is a process of social interaction in which interviewees are asked questions subjects or respondents to gain information or data (Hunter, 2015). There are different styles of interviewing, as mentioned earlier. Conducted interviews described as semi-structured interviews, where a proposed list of questions prepared (Appendix C: Interview questions), interviewees selected according to their experience and role in corporate governance within their firms or on Palestinian firms in general.

Mark Saunders et al. (2015) pointed that appropriate behavior should be followed thorough interviews to ensure the effectiveness of the interview, an interview should be professional and should not influence and lead the interviewees for any results, and bias should be avoided.

Meeting conducted with key persons (Table 3-6) in Palestine who have an influence on the implementation and control of corporate governance in Palestine on the country and firms' level.

Table 3-6: List of Interviewees

#	Name	Position
1	HE. Maher Al –Masri	X-Minister for Economy, Head of National Committee who develop the code of governance in Palestine 2009, Chairman for PEX, Chairman for Palestine Islamic Bank, Chairman for Association of Banks in Palestine.
2	Mr. Ahmad Awaidah	CEO of PEX
3	Dr. Lina Swaiti	Representation for PMA
4	Dr. Hisham Awartani	Head of Palestinian Governance Institute
5	Mr. Mohammd Al Amoor	Head of Palestinian Businessmen society, , Chairman for Al Takaful Insurance Company, Chairman for Al Amoor Investment group
6	Mr. Iyad Masrouji	Former CEO of the Jerusalem Pharmaceuticals Co-Chairperson of boards of directors of other companies, including Jordan River Pharmaceutical Industries in Jordan, SPA Soprodim for pharmaceutical industries in Algeria, and Dar al-Qalam for Trade and Packaging.

3.10 Panel Data

Multi-dimensional data include time-series and cross-sectional called Panel data, which is used in this research. It is a good representation as it shows changes in the data in a specific duration for a data set (Dooley, 1992; Tigrel, 2014). Contents in panel data contain at least two dimensions; a cross-sectional dimension, indicated by subscript *i*, and a time-series dimension, indicated by subscript *t* (Hsiao, 2007; Wooldridge, 2010a).

Hsiao (2007) pointed out that data collection for panel data consumes efforts much more than cross-sectional or time-series alone. However, it is noticed that different researches used it to analyze the relation/effect of corporate governance on firms financial performance who have used panel data to represent firms corporate governance data and financial data (Abdelkarim & Alawneh, 2009; Berthelot, Morris, & Morrill, 2010; Eluyela et al., 2018; Marashdeh, 2014; Muda, Maulana, Siregar, & Indra, 2018).

Multiple regression involve a single dependent variable with two or more independent variables (a single response variable and more than one explanatory variable) (Colin Robson & McCartan, 2016); Marashdeh (2014) pointed that multiple regression is a good tool for analyzing panel. In this research, there are three models; the dependent(s) and independent variables as shown in the research model (Figure 3-1).

Multiple regression analysis chosen as the main tool of analysis in this study. This regression method is one of the most common methods of analysis panel data, that have been used by previous studies (Al-amarneh, 2014; Bonna, 2012; Ciftci et al., 2019; Ertugrul & Hegde, 2009; Marashdeh, 2014).

For review, this research represents the model on three formulas dependent and independent variables representing the period 2013-2019, with 280 observations, with no divergence in the study period. This is applicable for panel regression models to test the research hypotheses. This model, which examines corporate governance and its effect on firm performance, is consistent with prior studies that discussed and analyze similar objection with little changes in the period, independent variables, and the number of observations (Bonna, 2012; Ciftci et al., 2019; Marashdeh, 2014; Setia-Atmaja, 2009; Zheka, 2005).

Baltagi (2005) mentioned the benefits of using panel data:

- It is good for controlling for individual heterogeneity.
- Panel data give data that are more informative, more variability, less collinearity among the variables.
- Panel data are better able to identify and measure effects that are simply not detectable.
- Panel data models allow us to construct and test more complicated behavioral models than purely cross-section or time-series data.
- Good estimator controlling the impact of omitted variables

Baltagi (2005) mentioned also limitations benefits for using panel data:

- Design and data collection problems.
- Distortions of measurement errors.

Wooldridge (2002) noted that panel data is balanced if all observation for time-periods and cross-sectional are available, else it is considered less/weak balanced or unbalanced; if data is missing. In the study, the panel data assumed to be balanced as all data is available for all cross-sectional and time-periods from 2013-2019 (Wooldridge, 2010b), The treatment of unbalanced panels is straightforward but tedious (Schmidheiny, 2012) .

Table 3-7 show a summary of all observed data for all variables.

Table 3-7: Summary for all observed data

Variable Name	# of	Mean	Std. Dev.	Min	Max
Return on Assets	280	0.030627	0.056725	-0.19435	0.261088
Return on Equity	280	0.061964	0.104715	-0.683	0.485
Tobins'Q	280	0.627051	0.657362	0.030829	4.39003
Ownership	280	0.573325	0.240756	0	0.9676
Public Ownership	280	0.356243	0.206748	0.0531	0.8559
Corporate ownership	280	0.375728	0.286689	0	0.9331
Foreign ownership	280	0.276179	0.278551	0	0.9241
Board size	280	8.864286	2.223081	4	15
Family-controlled board	280	0.125949	0.229618	0	1
Number board	280	2.475	1.757549	0	7
Busy Board	280	0.436742	0.272542	0	1
Audit committee	280	0.028571	0.187144	0	2
Board composition	280	0.067728	0.08735	0	0.363636
Board independence	280	0.092857	0.290752	0	1
Number of Board	280	5.946429	1.281515	2	11
Board gender diversity	280	0.057865	0.104242	0	0.5
Duality of CEO and	280	0.157143	0.364587	0	1
Leverage	280	0.097862	0.117446	0	0.908649
Firm Age	280	2.8	0.510815	1	3
Firm Size	280	24.225	12.81532	3	66

Table **3-7**, show that panel data is balanced, the number of sum unit time is equal for all firms (Arellano, 1993), there are 280 observations; represents the forty selected firms for seven years. Accordingly, there are T time-periods (t=1,2..7) and N number of Firms (i=1,2.. 40), the panel data size is *i * t = number of observations.*

3.11 Panel Data Regression Model

In order to analyze the panel data and have an estimation model for regression there are three models:

1. Common Effect Model or Pooled Least Square (PLS): this is ignored because it does not consider *i* and *t* as dimensions, so it will be like the Ordinary Least Square (OLS), *which* not valid for panel data.
2. Fixed Effect Model: it is ignored because this model tends to omit dummy variable(s); in the study data, there are dummy variables (CEO Duality, and Audit Committee independence and board independence) (Arellano, 1993). Also, this model is considered when a long period is associated with fewer cross-section variables(Çiftçi, 2016); in this research, there are seven units of time associated with seventeen variables.
3. Random Effect Model: it is suited for the study. To ensure that selection is right; the Hausman test run (Wooldridge, 2002; Zulfikar, 2018) and to ensure the robustness of the choice Breusch and Pagan Lagrangian multiplier (LM) test used.

In order to select a random or fixed effect model, Hausman test used; there is a null hypothesis that the random effect model is valid for this study.

H0: Select RE ($p > 0.05$) (Zulfikar, 2018) – Random effect

H1: Select FE ($p < 0.05$) - Fixed effect

After conducting the Hausman test, the following results in Table 3-8.

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Table 3-8: Results for Hausman tests

	ROA	ROE	Tobins'Q
chi2(11)	11.07	10.31	4.79
Prob>chi2	0.6053	0.6682	0.9967

The p-value is greater than 0.05 the null hypothesis cannot be rejected and so the random effect model is valid and appropriate for this study.

To ensure the robustness of the choice (Random Effect Model) that it is better than the fixed-effect model Breusch and Pagan Lagrangian multiplier (LM) test used. The first step in STATA to run the LM test, ***xtset*** command is used, the output for this command tell about balancing of the date. After running the command, it shows that the data is strongly balanced.

Following hypothesis that the random effect model is not valid for this study.

H_0: random effect model is not valid (p> 0.05)

H_1: random effect model is valid (p <0.05)

After conducting the LM test, it confirmed that the random effect model is the appropriate selection to analyze data for this research. For illustration following figure show output for the LM test for the three dependent variables (ROA, ROE, and Tobins'Q). See Table 3-9, Table 3-10and Table 3-11.

Table 3-9: Breusch and Pagan Lagrangian multiplier test result (ROA)

element	var	sd = sqrt(Var)
ROA	.0032177	.0567246
e	.0010913	.0330346
u	.0011947	.0345641
Test: var(u) = 0 Chibar2(01) = 111.30 Prob > chibar2 = 0.000		

Table 3-10:Breusch and Pagan Lagrangian multiplier test result (ROE)

element	var	sd = sqrt(Var)
ROA	.0109652	.1047148
e	.0054346	.0737199
u	.0025951	.0509417
Test: var(u) = 0		
	Chibar2(01) = 35.27	
	Prob > chibar2 = 0.000	

Table 3-11:Breusch and Pagan Lagrangian multiplier test result (Tobins'Q)

element	var	sd = sqrt(Var)
Tobins'Q	.4321247	.6573619
e	.0154142	.1241539
u	.3055904	.5528023
Test: var(u) = 0		
	Chibar2(01) = 544.27	
	Prob > chibar2 = 0.000	

According to results in Table 3-9, Table 3-10 and Table 3-11. Prob>chibar2 = 0.0000 for the LM test for the three dependent variables ROA, ROE, and Tobins'Q; so the null hypothesis is rejected. As a result, this is evidence that the Random Effect Model is robust and is a good selection for analyzing the panel data for this study.

3.12 Multicollinearity test

Multicollinearity test is needed, which is considered a problem and will effect study results if exists. It is when there is a linear relation among two or more independent variables. Pearson's correlation matrix or variance inflation factor(VIF) used to check for the existence of a multicollinearity problem (Alin, 2010). Vu, Muttaqi & Agalgaonkar (2015) proposed that VIF an effective approach to test multicollinearity and it is better than using Pearson's correlation matrix. Both methods to check the Multicollinearity.

Exiting of correlation between two or more independent variables means that there is y or Multicollinearity problem so it will be difficult to determine the effect of each independent variable alone (Marashdeh, 2014; Mark Saunders et al., 2015).

When Pearson's correlation conducted, output values of correlation are from -1 or 1 (Mark Saunders et al., 2015) when it closed to one (positive or negative) this mean that there is a very strong correlation; either positive or negative according to the sign of the correlation coefficient.

Table 3-12 shows correlation test between all variables. There is high negative correlation between Ownership concentration percentage and public ownership concentration percentage, value -.9482. Table 3-13 shows the variance inflation factor result (VIF), it is clear that both variables Ownership concentration percentage and public ownership concentration percentage have Multicollinearity problem for these two variables, the value is greater than 10 (Mark Saunders et al., 2015).

Table 3-12: Correlation coefficients matrix

	ROA	ROE	Tobins'Q	Ownership Concentration	Public Ownership	Corporate Ownership	Foreign Ownership	Board Size	Family-Controlled Board Membership	Number of Board Committees	Busy Board	Audit Committee Independence	Board Composition	Board Independence	Number Of Board Meetings	Board Gender Diversity	Duality Of CEO And Chairman	Leverage	Firm Size	Firm Age
ROA	1																			
ROE	0.836	1																		
Tobins'Q	0.2595	0.0113	1																	
Ownership Concentration	-0.0343	-0.1095	0.2676	1																
Public Ownership	-0.0135	0.0347	-0.2514	-0.9482	1															
Corporate Ownership	-0.0293	-0.0735	0.0181	0.5007	-0.5035	1														
Foreign Ownership	-0.0656	-0.0521	0.0968	0.2582	-0.2137	-0.4869	1													
Board Size	-0.0944	0.029	-0.3053	-0.1722	0.1481	0.0778	0.0123	1												
Family-Controlled Board Membership	0.2168	0.1572	-0.0258	-0.312	0.2987	-0.3549	-0.1414	-0.3483	1											
Number of Board Committees	-0.0812	0.1479	-0.2126	-0.0898	0.0402	-0.1213	0.2759	0.2716	-0.2334	1										
Busy Board	0.0319	0.0235	0.2503	0.2632	-0.2244	0.0318	0.3418	-0.0709	-0.3178	0.099	1									
Audit Committee Independence	-0.0492	0.0531	-0.0166	-0.0894	0.0719	-0.0324	0.0813	0.1041	-0.0125	0.1765	0.0876	1								
Board Composition	0.0445	-0.0045	-0.1164	-0.3731	0.3695	-0.2627	-0.1397	-0.0757	0.2257	-0.0067	-0.2469	-0.0769	1							
Board Independence	-0.0791	0.0926	0.2616	0.0331	-0.0014	0.0509	0.0939	0.0972	-0.146	0.3973	0.29	0.2804	-0.1703	1						
Number Of Board Meetings	-0.0144	0.0555	-0.0385	-0.3625	0.3475	-0.1343	-0.0488	0.0276	-0.2281	0.3232	0.0009	0.111	-0.0615	0.2346	1					
Board Gender Diversity	0.1523	0.1348	0.0394	-0.2036	0.1943	-0.2655	-0.0694	-0.1643	0.3728	-0.1374	0.1156	0.1059	-0.0552	0.0346	0.0395	1				
Duality Of CEO And Chairman	0.0197	0.0566	-0.1016	-0.353	0.3638	-0.2204	-0.1533	-0.1195	0.2148	0.0397	-0.1341	-0.0135	0.6702	0.0309	0.0411	-0.0161	1			
Leverage	-0.3143	-0.3549	-0.1925	0.1457	-0.0841	0.1173	0.1206	0.0881	-0.1492	-0.0684	0.2022	-0.0181	-0.2462	-0.0684	0.0163	-0.0008	-0.0947	1		
Firm Size	0.1778	0.2153	-0.1559	-0.1114	0.083	-0.1043	0.2178	0.1212	0.0856	0.4216	0.0771	0.06	-0.0398	0.1255	0.0602	-0.1427	0.0154	0.1092	1	
Firm Age	0.2561	0.1768	0.0374	-0.3083	0.3644	-0.1567	-0.1442	0.0407	0.1849	-0.1285	-0.0451	0.1034	0.0478	0.1483	0.1304	0.1628	0.1136	0.06	-0.0369	1

Table 3-13: variance inflation factor (VIF)

Variable Name	VIF
Ownership Concentration	14.1
Public Ownership	11.71
Corporate Ownership	4.38
Foreign Ownership	3.75
Family-Controlled Board Membership	2.45
Board Composition	2.29
Duality Of CEO And Chairman	2.06
Number of Board Committees	1.98
Number Of Board Meetings	1.76
Board Size	1.64
Busy Board	1.64
Board Independence	1.63
Board Gender Diversity	1.52
Firm Size	1.49
Firm Age	1.31
Leverage	1.27

Value > 10

To visualize, the correlation between the two variables, a matrix graph drawn for both of them (see Figure 3-7). It is clear visually that there is a high negative correlation between ownership concentration and public ownership.

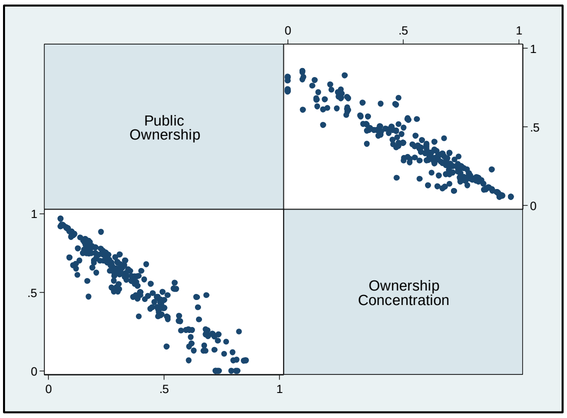

Figure 3-7: Graph Matrix ownership concentration and public ownership

For strong correlated variables, there will be problem in analyzing the data, so problem need to be solved. There are no clear guides on how to resolve the high correlation but following some recommended solutions (Marashdeh, 2014) :

- Use prior information.
- Combining cross-sectional and time-series data.
- Omitting a highly collinear variable.
- Transforming data and obtaining additional or new data.

Omitting one of the correlated variables selected as a solution for the existing correlation between ownership concentration and public ownership. The ownership concentration has been discussed in many other articles and show significant effect (Abdelkarim & Alawneh, 2009; Çiftçi, 2016; Darweesh, 2015). For this study, the ownership concentration is omitted and public ownership chosen for further analysis that might come with a new significant variable.

3.13 Homoscedasticity/Heteroscedasticity and Autocorrelation

Homoscedasticity of variance mean that the error term is uniform, the variance of the unobservable error (u) is constant over independent variables x. Heteroscedasticity is the violation of homoscedasticity. Heteroscedasticity rises if the variance of the error term changes in response to independent(s) variable(s) change (Gujarti & Porter, 2013; Wooldridge, 2012). The problem of heteroscedasticity is likely to be more common in cross- sectional than in time series data (Gujarti & Porter, 2013). If heteroscedasticity exists then the estimated standard errors might be biased and unreliable.

Heteroscedasticity tested by using the Breusch-Pagan test, result in Table 3-14

Table 3-14: Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

Item	ROA	ROE	Tobins'Q
Chi2(1)	90.92	34.30	484.61
p-value	0.0	0.0	0.0

The test result show that p-value less than .05 so null hypothesis rejected and so heteroscedasticity exists, which is common in panel data. Also panel-data moved through the likelihood ration test by using feasible generalized least squares(Wiggins & Poi, 2019), heteroscedasticity tested and it is exist. The likelihood-ratio *LR chi2(39) = 280.95) and prob>chi2 = 0. In order to resolve the heteroscedasticity, robust standards options (vce(robust) and cluster() in stata with xtreg command) used while running the multiple regression (Hoechle, 2007).

Autocorrelation is about the relationship between the values of the error term, in another word it is in the case where value of a variable at a particular time is related to its value at another time period (Gujarti & Porter, 2013; Mark Saunders et al., 2015).

Economic time series generally show autocorrelation because over a time period results move up and down and do not show a continues up or down (Gujarti & Porter, 2013). Serial correlation need to be analyzed in panel data as it biases the standard errors and causes the results to be less efficient (Drukker, 2003).

Wooldridge test used to found if autocorrelation exists in the data, Table 3-15 show tests results.

Table 3-15: Wooldridge test for autocorrelation in panel data

Item	ROA	ROE	Tobins'Q
F(1, 39)	4.052	0.256	20.990
p-value	0.0511	0.6158	0.0

The p-value is greater than .05 for ROA and ROE, null hypothesis cannot be rejected. Therefore, there is no autocorrelation in the panel data for ROA and ROE.

The p-value is less than .05, the null hypothesis is rejected and so there is autocorrelation in the panel data for Tobins'Q.

In summary for ROA and ROE Heteroscedasticity exists but no Autocorrelation, for Tobins'Q Heteroscedasticity and Autocorrelation exists, these issues solved in the multiple regression.

CHAPTER FOUR: DATA ANALYSIS

4.1 Descriptive Analysis

Following description analysis for all variables.

Table 4-1, show summary and descriptive for all study variables, dependent, independent, and control variables.

Table 4-1: Summary and descriptive Statistics

Variable Name	# of	Mean	St.	Min	Max
Return on Assets	280	0.03	0.06	-	0.26
Return on Equity	280	0.06	0.10	-	0.49
Tobins'Q	280	0.63	0.66	0.03	4.39
Ownership Concentration	280	57%	24%	0%	97%
Public Ownership	280	36%	21%	5%	86%
Corporate Ownership	280	38%	29%	0%	93%
Foreign Ownership	280	28%	28%	0%	92%
Board Size	280	9	2	4	15
Family-controlled board membership	280	13%	23%	0%	100%
Number of Board Committees	280	2	2	0	7
Busy Board	280	44%	27%	0%	100%
Audit Committee Independence	280	0.029	0.189	0	1
Board composition	280	7%	9%	0%	36%
Board Independence	280	0	0	0	1
Number of meetings	280	6	1	2	11
Board gender diversity	280	6%	10%	0%	50%
Duality of CEO and Chairman	280	0	0	0	1
Leverage	280	0.10	0.12	0.00	0.91
Firm size	280	3	1	1	3
Firm age	280	24	13	3	66

4.1.1 Financial Performance Indicators (Dependent Variables)

Figure 4-1 shows a normal distribution for return on investment for all firms during the whole study period; there are some far points from the mean 0.03, the min ROA is -0.19 and the max is 0.26.

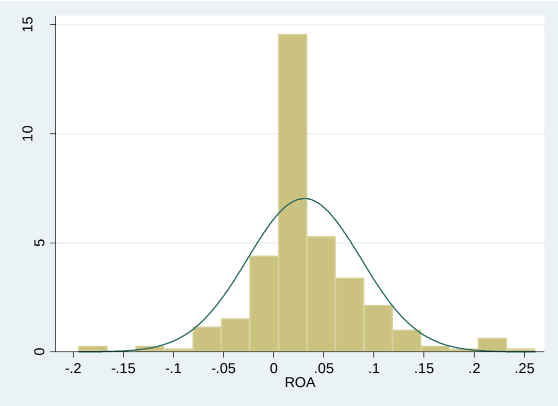

Figure 4-1 Probability distribution for Return on Assets (ROA

Figure 4-2 show a normal distribution for return on investment for all firms during the whole study period; there are some far points from the mean 0.06, the min ROE is -0.68 and the max is 0.49.

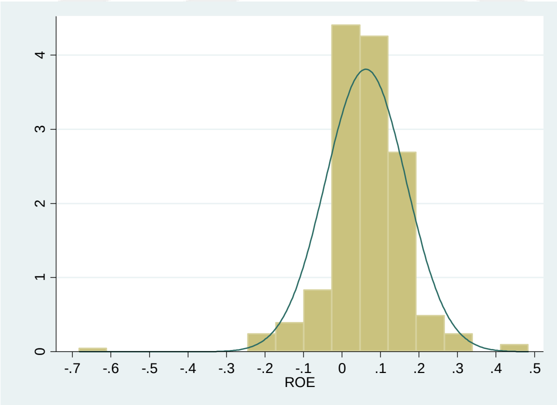

Figure 4-2: Probability distribution for Return on Equity (ROE)

Figure 4-3 show the distribution of the selected firm's financial performance over the study period (positive and negative performance according to ROE and ROA values).

Description for ROE/ROA shows that majority of the selected firms have positive financial performance over the study years, that 84% of the financial performance was positive and 16% show negative performance.

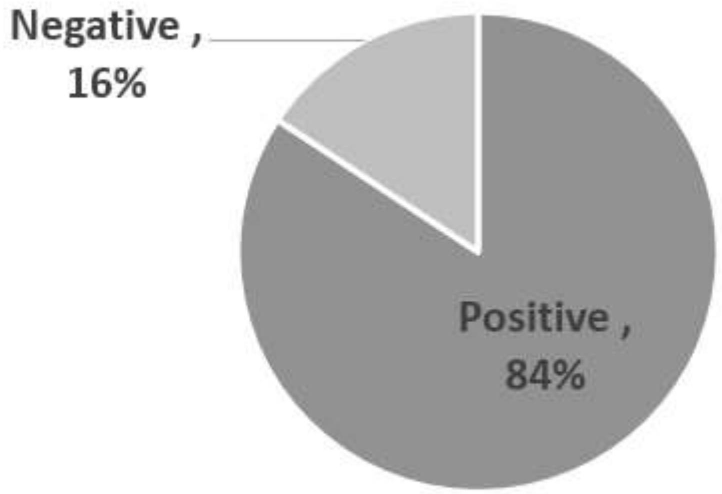

Figure 4-3: Financial Performance distribution positive and Negative for the study years for all selected firms

Figure 4-4 shows the distribution of the selected firm's financial performance over the study period according to Tobins'Q value). Min and Max are .03 and 4.39 with average .63, the graph show right skewing, there are few firms show high Tobins'Q values

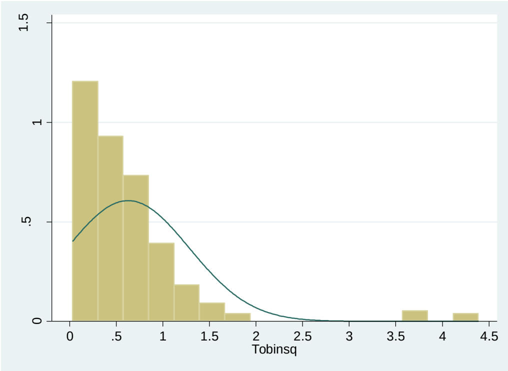

Figure 4-4: Probability distribution for Tobins'Q

When the value of the Tobins'Q is one then the market value is equal to the total assets. This value is important for future investors as if the value is less than one then it will be attractive for investors to buy shares if other performance indicators are good (ROE, ROA, and others); but if it so high then there is potential for decrease or little probability to increase more.

Analyzing the date show that there are sixteen firms with Tobins'Q less than one where these firms have ROE greater than 6%[7] in 2019.

4.1.2 Independent Variables

Ownership Concentration

Table 4-2Table 4-2 shows the sample of observations values; the mean is 57% for all selected firms through the whole study period with Min of 0% and max 96.76%. Figure 4-5 summarizes the average of ownership concentration annually for the study years from 2013-2019, it shows an ascending line with increased ownership concentration over years, this might be due to efforts of large shareholders to capture more portions of the firms. This increase explained according to the economic situation; when small investors tend to sell their shares, which were considered as shares for saving.

[7] 6% is the average ROE for the selected firms in this study for the whole period 2013-2016

Table 4-2: Summary for Ownership Concentration

Variable	# of Observations	Mean	St. Dev	Min	Max
Ownership concentration	280	57%	24%	0%	97%

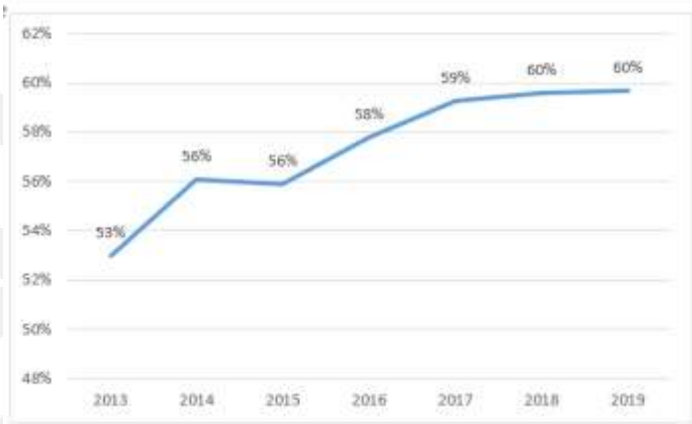

Figure 4-5 Overall average for ownership concentration over study years

Another variable described that show number of board members who represent large shareholders (who have the concentrated ownership), through the years 2013 to 2019 average is 4, this mean that an average of another 5 members represent non-concentrated owners.

4.1.2.1 Public Ownership

Table 4-3: Summary for Public Ownership

Variable	# of Observations	Mean	St. Dev	Min	Max
Public ownership	280	36%	21%	5.31%	86%

Public ownership represents the percentage of shares that allowed for trading in PEX, the summary shows that the average percentage of shares for all listed firms is 36% when the minimum is 5.31% and the maximum percentage is 86%.

Figure 4-6 show a declining percentage for public ownership, which is a natural direction as opposed to the increasing direction for ownership concentration, less public means high concentration. This agrees with the negative strong correlation between public ownership and ownership concentration shown in Figure 3-7

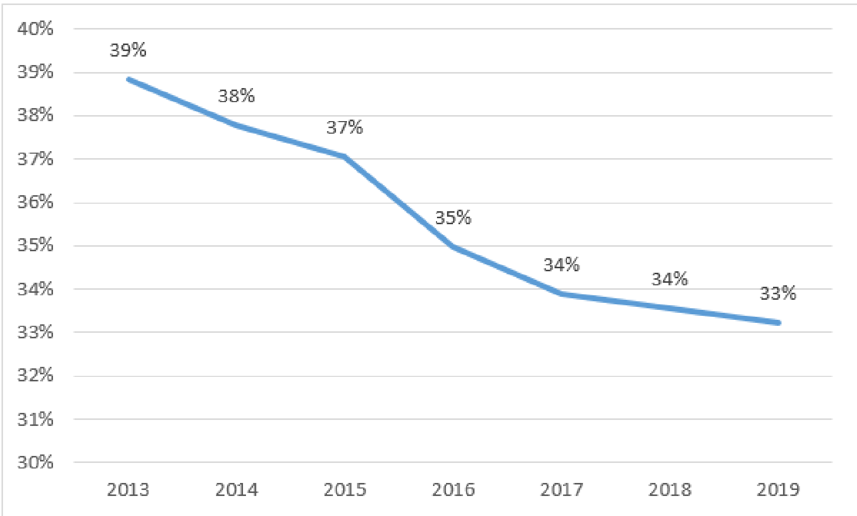

Figure 4-6 Overall average for Public Ownership percentage over study years

4.1.2.2 Foreign Ownership and Corporate ownership

Table 4-4 contains a summary for foreign ownership and corporate ownership average for each is 28% and 38% consequently, Min is 0% for both, while the Maximum value was 92% and 93%.

Table 4-4 Foreign and Corporate Ownership

Variable	# of Observations	Mean	St. Dev	Min	Max
Foreign Ownership	280	28%	28%	0%	92%

Corporate Ownership	280	38%	29%	0%	93%

The research inspected a correlation between foreign and corporate ownership because in Palestine there were efforts from local investors and from the government to attract foreign investors. Table 4-5 show the correlation coefficient between the two variable and it indicates semi-negative correlation. Figure 4-7, show correlation matrix between the two variable; there is no strong correlation.

Table 4-5 Correlation between foreign and corporate ownership

	Corporate Ownership	Foreign Ownership
Corporate Ownership	1.0000	
Foreign Ownership	-0.4869	1.0000

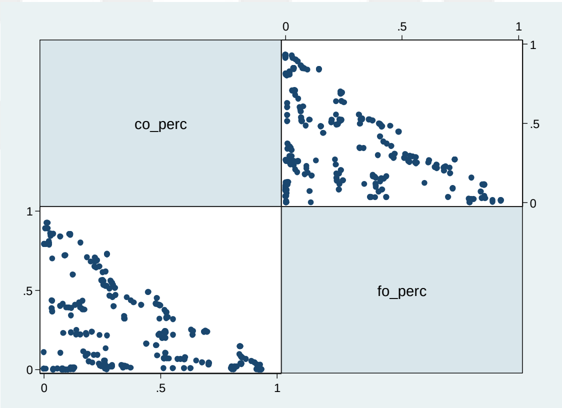

Figure 4-7 Correlation matric between corporate and foreign ownership

4.1.2.3 Board Size

Table 4-6 shows a summary for board size, the average board size is nine members. It is checked for each year from 2013-2019 and it is nine. This means that nine members is an accepted board size for the listed firms even if some have fewer or more board members.

Table 4-6 Summary for Board Size

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Board Size	280	9	2	4	15

The code of governance in Palestine stated that a board size should be between five and eleven (CGNA, 2009). Board size does not have a trend increasing or decreasing as some firms increased the board size other decreased the board size, also the same firm might increase the board size again after decreasing, the main reason for that was Buy/Sell shares, which reflect the board composition and the structure of a firm's ownership.

4.1.2.4 Family Controlled board membership

Table 4-7 shows the summary for the variable family-controlled board membership, average ownership is 13% for the whole dataset while the min is 0% and the max is 100%; which means no family board members or the board fully represented by families. However, in Palestine, the selected firms does not tend be controlled by families.

Table 4-7 Summary for family-controlled board membership

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Family-controlled board membership	280	13%	23%	0%	100%

As shown Figure 4-8 percentage of family members decreased on boards but it is still about 12% on average.

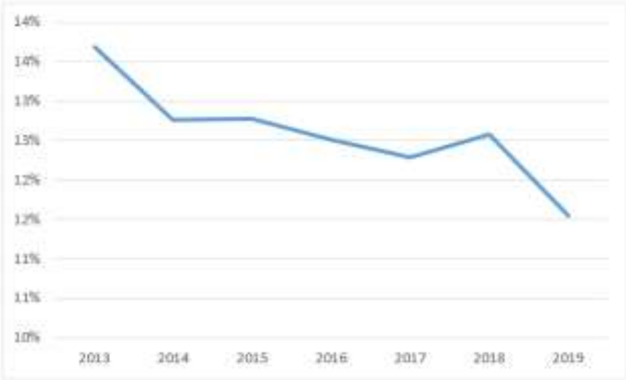

Figure 4-8: Overall percentage for family board members over study years

4.1.2.5 Number of board committees

Table 4-8 show the summary for the number of board committees, average is two committees, one of them and considered the major one is the audit committee while other committees were for human resources, risk, investments, governance, and others.

The research show that the average of board committees increased from two to three in the last years (2018, 2019); this shows more tendency to implement the code of governance and more concern from the boards about the board committees.

Table 4-8 Summary for Number of Board committees

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Number of Board Committees	280	2	2	0	7

Through years, average number of board committees increased as shown in Figure 4-9

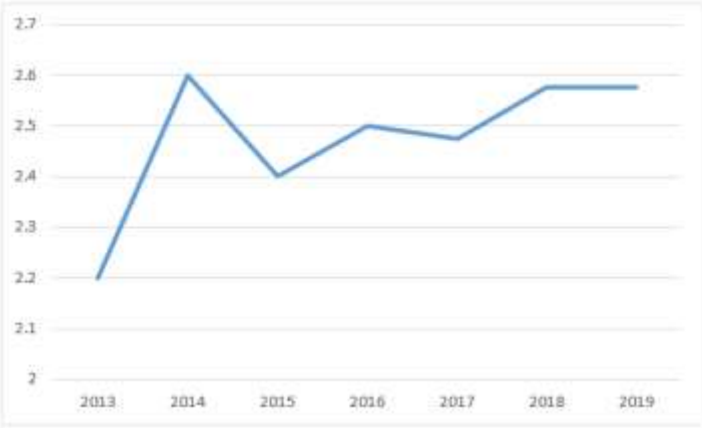

Figure 4-9: Average number of board committees

4.1.2.6 The Busy Board Members

The busy board member is a board member for a selected firm and at the same time, he/she is a board member in at least another three boards. Table 4-9, show that an average of 44% of the board members are considered busy while the minimum is zero and the maximum is 100%; this means no busy board member or fully busy board members. This might be due to the interlock connection between different boards, which is integrated with the resource dependency theory to show more control over other firms (G. F. Davis & Cobb, 2009). In addition, Palestine is considered a small economy; there are few and large shareholders who capture and control different boards.

Table 4-9: Summary Busy Board members

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Busy Board	280	44%	27%	0%	100%

Figure 4-10 show percentage of busy board members over study years, it is clear that percentage looks constant and does not have significant change.

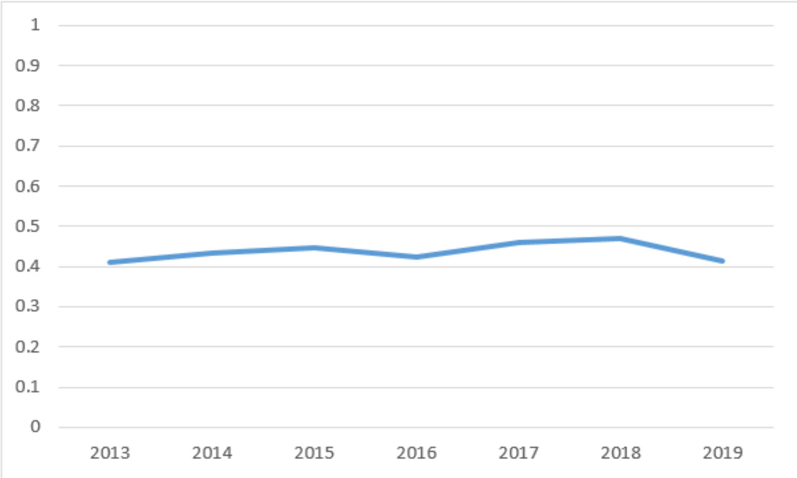

Figure 4-10: Percentage of Busy Board members over years

4.1.2.7 Audit Committee Independence

Audit committee considered independent if more than 50% of members are independent board members, data collected according to the declaration of the firms in their annual reports, about the independent status of the board members. Table 4-10, show that there is no independence of the audit committee for all firms, the mean is approximately zero members, and some few firms have two members. Other statistics show that the Banks sector included independent members.

Table 4-10: Summary for Audit Committee independence

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Audit Committee Independence	280	0.029	0.189	0	1

4.1.2.8 Board Composition

Board composition reflects the proportion of executive members[8] from the board. Table 4-11, show that an average of 7% of the board size is executive, the

[8] Executive board member: is board member and in the same time occupy executive position in the firm

minimum is zero while the maximum is 36%. It is about one to two executive board members inboard, which include executives.

Table 4-11: Summary for Board composition

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Board composition	280	7%	9%	0%	36%

Board composition percentage very low and decreased over study period (Figure 4-11), this is due to separation of CEO and chairman through the study period (Figure 4-16).

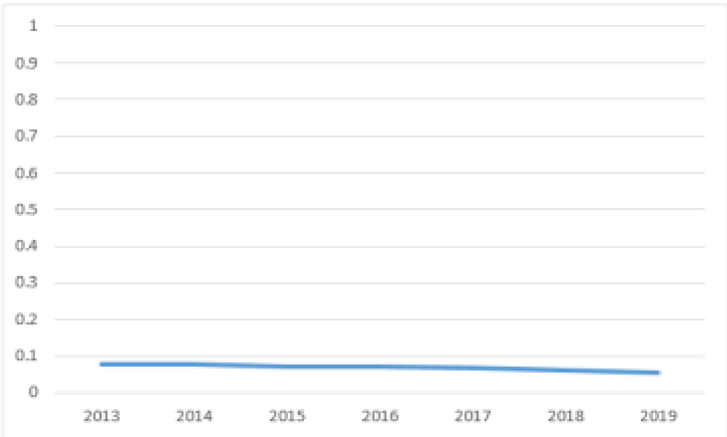

Figure 4-11: Overall percentage of Board Composition

Figure 4-12 Show that 55% of the firms for the study period 2013-2019 do not have executives on the board while 45% have an executive on the board.

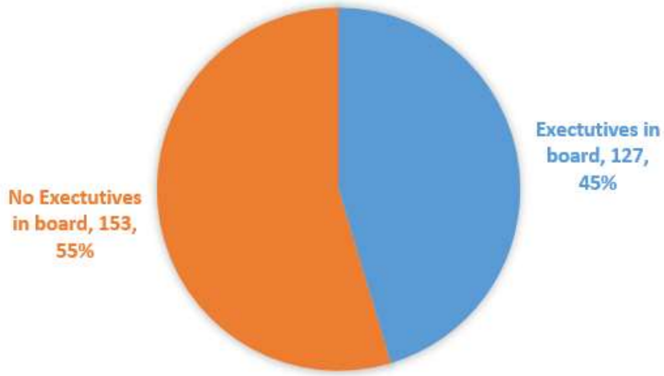

Figure 4-12 Distribution firms according of the existence of Executive Members in firms boards

Further analysis for the executive portion (the 127 firms Figure 4-12), the study inspected how many CEOs in those firms, Figure 4-13 show percentage of the 127 firms where there is duality between CEO and chairman. Analysis show that 33% of the observations there is the duality of CEO and Chairman and executive board members. To support this a correlation test conducted between the two variables CEO duality and executive percentage show a value of .67 for the correlation coefficient. Noting that any of those two variables were not dropped from the next multiple regression analysis because the result of VIF test was less than 10.

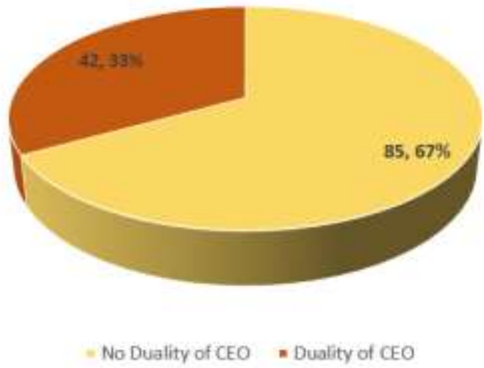

Figure 4-13 Distribution of executive members over duality of CEO and Chairman

4.1.2.9 Board Independence

Board Independence is a dummy variable equal to one if at least two board members are independent else the value is zero. Table 4-12 show that there is no board independency in general the mean is zero.

Table 4-12: Summary of Board independence

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Board Independence	280	.093	0.29	0	1

More Statistical analysis show that only 16% of the observation have independent members on the board represented by one or two members. Also number of firms with independent member on board increased from two to five through the study period, it is still very low.

4.1.2.10 Number of Board meeting

Recall that number of board meetings count all board meetings but does not count the general assembly meeting and other board committees meeting. Table 4-13 show that on average boards conduct six meetings annually (every two months).

Table 4-13: Summary for number of annual board meeting

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Number of meetings	280	5.95	1.28	2	11

4.1.2.11 Board Gender Diversity

Board gender diversity represents the proportion of female board members to the board size, Table 4-14 show that the average proportion is 6%, the minimum is 0% and the maximum is 50%. These rates included all selected firms for the whole period.

Table 4-14: Summary for Board gender diversity

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Board gender diversity	280	5.79%	10.42%	0%	50%

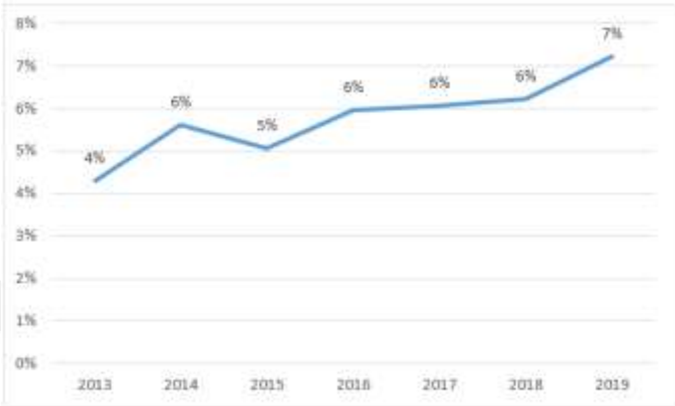

Figure 4-14: Board gender diversity Proportion development

Further analysis for each years as in Figure 4-14 show that proportion increased in the Board gender diversity, it is clear in that proportion increased from 4% in 2013 to 7% in 2019

Another view for the increase in the number of female board members classified according to firms' sector is shown in Figure 4-15. There is an increase in the number of female board members except in the industry sector.

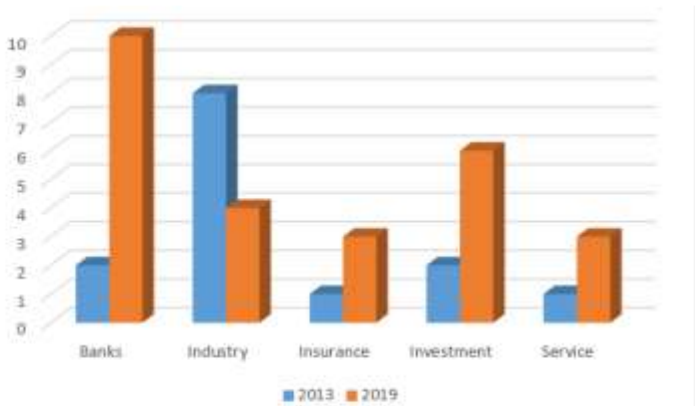

Figure 4-15: Number of female board members for 2013 and 2019

4.1.2.12 Duality of CEO and Chairman

Duality mean the same person (he/she) is CEO of a firm in a specific year; also he/she is the Chairman for that firm in that specific year. Table 4-15 shows the mean is low .157, which means that majority of firms have separation for CEO and Chairman Positions.

Table 4-15: Summary for Duality of CEO and Chairman

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Duality of CEO and Chairman	280	0.157	0.364	0	1

Auditing agencies always pointed to this important issue and push on firms to separate the duality. Average number of firms with CEO duality is six for the study period. Figure 4-16 show a decreasing number of chairmen who occupy the CEO position at the same time, this one of the major governance requests and progressing in the right direction.

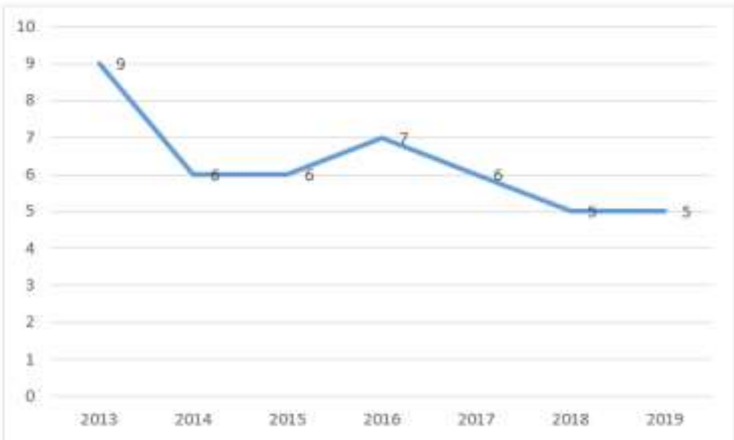

Figure 4-16: Number of Dualiy positions

4.1.2.13 Control Variables

4.1.2.13.1 Leverage

Leverage rate is a ratio of total debt to total assets, it used by the different firms for different purposes, for example when liquidity is needed .Table 4-16 shows a summary of Leverage for all firms during the study period. The average is 10%, Min is 0, this mean that a firm is not have any debit which is considered in general as healthy situation, and opportunity for new investments.

Table 4-16: Summary for Leverage rate

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Leverage	280	9.78%	0.12	0.00	90.8%

More data deception for the Leverage show-ascending trend, the average increased from 8% to 11% during 2013-2019 as shown in Figure 4-17, this might be due to liquidity for new investments. But higher Leverage rate is not comfortable as it will show more commitment to the firm for paying the debit; also some studies pointed that it is an indicator of miss management (Çiftçi, 2016).

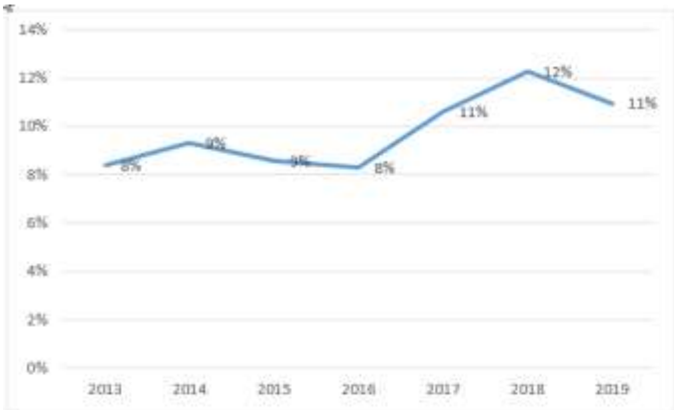

Figure 4-17: Leverage distribution over years

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4.1.2.13.2 Firm Size

Firm size in this research is classified into three types (Small, Medium, and Large) according to the number of employees, which used by different researches. Table 4-17 show that firm size for selected firms is Large with standard deviation 1 this means that the next majority is medium; for sure, there are small firms because the Minimum is 1 (small).

Table 4-17 Summary for firm Size

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Firm size	280	2.8	0.51	1	3

Firm size tested for the whole period, all firms still in their firm size, and no change occurred for any selected firm. Figure 4-18 shows the firm size distribution for 2019, which is the same for 2013. The large firms are the majority sector, next the medium then the small.

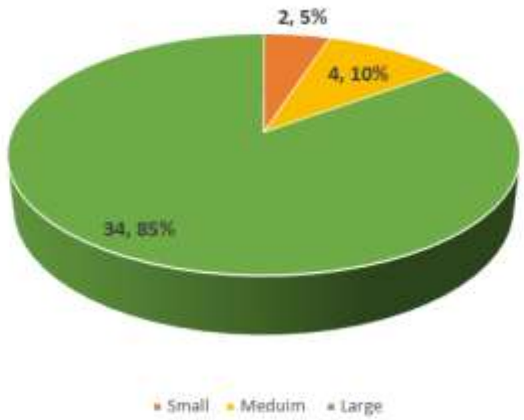

Figure 4-18: Firm Size Distribution for 2019

4.1.2.13.3 Firm Age

Firm age is the number of years from the establishment year to the report year; Panel data used for seven years, so there are seven different ages for each firm.

Table 4-18: Summary for Firm Age

Variable Name	# of Observations	Mean	Std. Dev.	Min	Max
Firm age	280	24.2	12.81	3	66

Table 4-18 shows the average age for the selected firm is 24 with Min 3 years and a maximum of 66. Another description shows that 55% of the selected firm established after the establishment of the Palestinian authority

4.2 Multiple Regression Model

In this study, multiple regression analysis is used to investigate the Impact of Cooperate Governance on the Financial Performance of Palestinian Listed Companies. This model used in different researches investigated the effect of corporate governance on firms' financial performance (Abdelkarim & Abusharbeh, 2016; Bonna, 2012; Çiftçi, 2016; Darweesh, 2015; Popescu, 2006).

Multiple regression involves a single dependent variable and two or more independent variables. It is flexible, widely used(Colin Robson & McCartan, 2016). In the case of cross-sectional data or time-series data but not with panel data (Wooldridge, 2012), it is considered as one-dimensional data so the multiple regression model is for k independent variable where k >= 2.

$$y_i = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \ldots + \beta_k x_k + u \qquad (4.1)$$

Where

β_0 is intercept

β_1, β_2 *and so on* are the parameters associated with corresponding variables

u is the error term

Random effect model was selected among other models as it matches the needs for the panel data (Wooldridge, 2012); the model is following:

$$y_{it} = \beta_0 + \beta_1 x_{1it} + \beta_2 x_{2it} + \cdots + \beta_k x_{kit} + \varepsilon \qquad (4.2)$$

Where

$i = 1.. N$ (Number of Firms)

$t = 1.. T$ (Number of years)

β_0 is intercept

β_1, β_2 *and so on* are the parameters associated with corresponding variables

ε is the error term

Multiple regression model is used for this study taking inconsideration the panel data structure. In this research, there are three dependent variables (ROA, ROE, Tobins'Q), for all panel data and three of them tested, accordingly there are the following multiple regression equations:

$$\begin{aligned} ROA_{it} = {} & \beta_0 + \beta_{1it} po\_perc_{1it} + \beta_{2it} co\_perc_{2it} + \beta_{3it} fo\_perc_{3it} \\ & + \beta_{4it} b\_size_{4it} + \beta_{5it} fc\_perc_{5it} + \beta_{6it} num\_c_{6it} \\ & + \beta_{7it} busy\_p_{7it} + \beta_{8it} ac\_ind_{8it} + \beta_{9it} bc\_perc_{9it} \\ & + \beta_{10it} bi\_flag_{10it} + \beta_{11it} num\_m_{11it} + \beta_{12it} gd\_perc_{12it} \\ & + \beta_{13it} ceo\_dual_{13it} + \beta_{14it} lrate_{14it} + \beta_{15it} firmsize_{15it} \\ & + \beta_{16it} \mathrm{firmage}_{16it} + \eta_i + \varepsilon_{it} \end{aligned} \qquad (4.3)$$

$$\begin{aligned} ROE_{it} = {} & \beta_0 + \beta_{1it} po\_perc_{1it} + \beta_{2it} co\_perc_{2it} + \beta_{3it} fo\_perc_{3it} \\ & + \beta_{4it} b\_size_{4it} + \beta_{5it} fc\_perc_{5it} + \beta_{6it} num\_c_{6it} \\ & + \beta_{7it} busy\_p_{7it} + \beta_{8it} ac\_ind_{8it} + \beta_{9it} bc\_perc_{9it} \\ & + \beta_{10it} bi\_flag_{10it} + \beta_{11it} num\_m_{11it} + \beta_{12it} gd\_perc_{12it} \\ & + \beta_{13it} ceo\_dual_{13it} + \beta_{14it} lrate_{14it} + \beta_{15it} firmsize_{15it} \end{aligned}$$

$$+ \beta_{16it} firmage_{16it} + \eta_i + \varepsilon_{it} \quad (4.4)$$

$$Tobins'Q_{it} = \beta_0 + \beta_{1it} po\_perc_{1it} + \beta_{2it} co\_perc_{2it} + \beta_{3it} fo\_perc_{3it}$$

$$+ \beta_{4it} b\_size_{4it} + \beta_{5it} fc\_perc_{5it} + \beta_{6it} num\_c_{6it}$$

$$+ \beta_{7it} busy\_p_{7it} + \beta_{8it} ac\_ind_{8it} + \beta_{9it} bc\_perc_{9it}$$

$$+ \beta_{10it} bi\_flag_{10it} + \beta_{11it} num\_m_{11it} + \beta_{12it} gd\_perc_{12it}$$

$$+ \beta_{13it} ceo\_dual_{13it} + \beta_{14it} lrate_{14it} + \beta_{15it} firmsize_{15it}$$

$$+ \beta_{16it} firmage_{16it} + \eta_i + \varepsilon_{it} \quad (4.5)$$

4.3 Hypotheses Testing

4.3.1 Multiple Regression Results

Multiple regression performed according to equation 4.3, 4.4 and 4.5. Impact of corporate governance variables on the firm performance is tested; results described in Table 4-19, Table 4-20, Table 4-21and summary for all test in Table 4-22.

Multiple regression performed for the three dependent variable ROA, ROE, Tobins'Q respectively.

Table 4-19: Multiple Regression Result, dependent variable ROA

Variable Name	Robust Coef.	Std. Err.	z	P>z	[95% Conf. Interval]	
Public Ownership	-0.072	0.032	-2.230	0.026	-0.134	-0.009
Corporate Ownership	-0.002	0.027	-0.080	0.938	-0.055	0.051
Foreign Ownership	-0.014	0.032	-0.450	0.654	-0.076	0.048
Board Size	0.002	0.002	0.860	0.389	-0.003	0.007
Family-Controlled Board Membership	0.056	0.031	1.780	0.075	-0.006	0.117
Number Board Committees	0.000	0.002	-0.150	0.878	-0.004	0.003
Busy Board	0.017	0.015	1.120	0.264	-0.013	0.047
Audit committee Independence	-0.008	0.005	-1.430	0.153	-0.018	0.003
Board Composition	-0.012	0.075	-0.160	0.876	-0.158	0.135
Board Independence	-0.019	0.008	-2.340	0.019	-0.035	-0.003
Number of Board Meetings	0.001	0.003	0.470	0.635	-0.004	0.006
Board Gender Diversity	-0.021	0.058	-0.370	0.711	-0.135	0.092
Duality of CEO and Chairman	0.009	0.010	0.850	0.395	-0.012	0.029
Leverage	-0.101	0.053	-1.920	0.055	-0.204	0.002
Firm Age	0.024	0.012	2.010	0.044	0.001	0.048
Firm Size	0.001	0.001	1.540	0.124	0.000	0.002
_cons	-0.060	0.048	-1.250	0.211	-0.153	0.034

sigma_u .034

sigma_e .033

R^2: 0.2922

Table 4-20: Multiple Regression Result, dependent variable ROE

Variable Name	Robust Coef.	Std. Err.	z	P>z	[95% Conf. Interval]	
Public Ownership	-0.135	0.057	-2.370	0.018	-0.247	-0.023
Corporate Ownership	-0.068	0.044	-1.530	0.125	-0.155	0.019
Foreign Ownership	-0.076	0.048	-1.580	0.113	-0.170	0.018
Board Size	0.006	0.004	1.670	0.095	-0.001	0.013
Family-Controlled Board Membership	0.078	0.050	1.560	0.120	-0.020	0.177
Number Board Committees	0.004	0.004	0.980	0.325	-0.004	0.012
Busy Board	0.050	0.026	1.950	0.051	0.000	0.100
Audit committee Independence	0.000	0.010	0.000	0.999	-0.019	0.019
Board Composition	-0.169	0.193	-0.880	0.381	-0.548	0.210
Board Independence	-0.012	0.022	-0.570	0.572	-0.056	0.031
Number of Board Meetings	0.001	0.004	0.290	0.769	-0.007	0.009
Board Gender Diversity	-0.016	0.115	-0.140	0.889	-0.242	0.209
Duality of CEO and Chairman	0.036	0.024	1.520	0.129	-0.010	0.082
Leverage	-0.225	0.106	-2.120	0.034	-0.433	-0.017
Firm Age	0.045	0.014	3.300	0.001	0.018	0.072
Firm Size	0.001	0.001	1.550	0.122	0.000	0.003
_cons	-0.078	0.065	-1.200	0.230	-0.206	0.049
sigma_u .051						
sigma_e .073						
R^2: 0.2809						

Table 4-21: Multiple Regression Result, dependent variable Tobins'Q

Variable Name	Robust Coef.	Std. Err.	z	P>z	[95% Conf. Interval]	
Public Ownership	-0.347	0.211	-1.650	0.100	-0.761	0.066
Corporate Ownership	0.156	0.200	0.780	0.435	-0.236	0.548
Foreign Ownership	-0.116	0.196	-0.590	0.555	-0.501	0.269
Board Size	-0.003	0.010	-0.320	0.751	-0.023	0.017
Family-Controlled Board Membership	0.084	0.140	0.600	0.551	-0.191	0.359
Number Board Committees	0.004	0.011	0.320	0.748	-0.018	0.025
Busy Board	-0.040	0.073	-0.550	0.581	-0.183	0.103
Audit committee Independence	-0.037	0.049	-0.750	0.453	-0.134	0.060
Board Composition	0.109	0.213	0.510	0.609	-0.308	0.525
Board Independence	-0.018	0.074	-0.240	0.807	-0.164	0.128
Number of Board Meetings	0.028	0.014	2.000	0.045	0.001	0.055
Board Gender Diversity	-0.379	0.207	-1.830	0.067	-0.785	0.027
Duality of CEO and Chairman	-0.015	0.060	-0.260	0.797	-0.132	0.102
Leverage	-0.453	0.106	-4.260	0.000	-0.661	-0.245
Firm Age	-0.175	0.180	-0.980	0.329	-0.527	0.177
Firm Size	-0.004	0.002	-1.810	0.070	-0.008	0.000
_cons	1.236	0.546	2.260	0.024	0.166	2.305
sigma_u .552						
sigma_e .124						
R^2: 0.0303						

R^2 for ROA and ROE is 0.2922 and 0.2809, they are close to each, however both of rates are considered low an so the independent variables describe only 29% and 28% from the financial performance, this mean that other variables impact financial performance and not necessarily to be another corporate governance variables.

For Tobins'Q, R^2 is .0303, it is very low, and it means that current variables affect only 3% the financial performance when measured by Tobins'Q.

Tobins'Q in not accounting based but it reflect the market value for a firm.

Table 4-22: Summary for multiple Regressions for all dependent variables

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Public Ownership	-0.072	0.026	-0.135	0.018	-0.347	0.100
Corporate ownership	-0.002	0.938	-0.068	0.125	0.156	0.435
Foreign ownership	-0.014	0.654	-0.076	0.113	-0.116	0.555
Board size	0.002	0.389	0.006	0.095	-0.003	0.751
Family-controlled board membership	0.056	0.075	0.078	0.120	0.084	0.551
Number board committees	0.000	0.878	0.004	0.325	0.004	0.748
Busy Board	0.017	0.264	0.050	0.051	-0.040	0.581
Audit committee independence	-0.008	0.153	0.000	0.999	-0.037	0.453
Board composition	-0.012	0.876	-0.169	0.381	0.109	0.609
Board independence	-0.019	0.019	-0.012	0.572	-0.018	0.807
Number of Board meetings	0.001	0.635	0.001	0.769	0.028	0.045
Board gender diversity	-0.021	0.711	-0.016	0.889	-0.379	0.067
Duality of CEO and chairman	0.009	0.395	0.036	0.129	-0.015	0.797
Leverage	-0.101	0.055	-0.225	0.034	-0.453	0.000
Firm Age	0.024	0.044	0.045	0.001	-0.175	0.329
Firm Size	0.001	0.124	0.001	0.122	-0.004	0.070

4.3.2 Hypotheses (H1 through H14) Testing Results

- **Hypothesis 1 (H1): Ownership concentration has an impact on financial performance.**

The ownership concentration dropped from the model because there is a high correlation with Public ownership. The impact of ownership concentration cannot be concluded according to the result in Table 4-22.

In order to test for ownership concentration multiple regression performed again but with the existence of ownership concentration and dropping the public ownership, result shown in Table 4-23.

Table 4-23: Multiple regression results - ownership concentration exists

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Ownership concentration	0.025	0.341	0.039	0.416	0.119	0.436

For the three financial performance indicators (the dependent variables) p-value is greater than .05. There is no significant effect of ownership concentration on the financial performance for the selected firms in Palestine.

This result is not consistent with previous studies' results (Adewunmi & Amole, 2013; Benamraoui, Jory, Mazouz, Shah, & Gough, 2019; Çiftçi, 2016; Claessens & Djankov, 1999; Darweesh, 2015; Javid & Iqbal, 2008; M. M. Omran et al., 2008; Yen & André, 2007). Higher concentration will lead to decreasing in agency problem and associated cost (Yen & André, 2007).

Other researches shows a negative impact of ownership concentration on a firm's value or accounting performance indicator (Abdelkarim & Alawneh, 2009; M. I. Abdullah, Sarfraz, Qun, & Chaudhary, 2019; Vasilic, 2018).

The overall average of ownership concentration is 57% (Table 4-2) which is very close to the turning point of ownership concentration where the impact will move firm from one state to another, Kuznetsov & Muravyev (2001) pointed that at 56% average the relationship between ownership concentration and profitability follows a U-shaped pattern. It is understood that Ownership concentration reflects the distribution of power and authority between manager and shareholders, the concentration may affect the control over a firm as the owner with a huge portion influences firm(s)and usually unwell to delegate authorities (Darweesh, 2015). Even if the overall average for ownership concentration is 57% but this does not have a significant impact on financial performance.

Thus, Hypothesis 1 is rejected; there is no impact of ownership concentration on financial performance.

- **Hypothesis 2 (H2): Public Ownership has an impact on financial performance.**

Table 4-24: Multiple Regression result for Public Ownership

	ROA		ROE		Tobins'Q	
variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Public Ownership	-0.072	0.026	-0.135	0.018	-0.347	0.100

For the two financial performance indicators (ROA and ROE), p-value is lass than .05. There is significant effect of ownership concentration on the financial performance for the selected firms in Palestine. For Tobins'Q it is not significant, Public ownership contains represent the free-floating shares that offered to buy/sell transactions in PEX. More offered shares may lead to unstable market value which will affect investors (Çiftçi, 2016).

Public ownership means more small shareholders which might lead to less monitor and control over firm, it is assumed that public owners main concern is quick wins, more control will add more cost and it is not of the interest of small shareholders (Berle & Means, 1932; Mang'unyi, 2011; Marashdeh, 2014). Also, it is not easy for the small shareholder to enter the board because assigning board members are mostly related to the percentage of ownership (Bebchuk & Hamdani, 2009). In Palestine as in other similar countries, it is preferred to have a board member who represents small investors (CGNA, 2009).

Thus, Hypothesis 2 cannot be rejected; there is a negative impact of public ownership on financial performance but not on the market value

- **Hypothesis 3 (H3): Corporate Ownership has an impact on financial performance.**

Table 4-25: Regression result for Corporate Ownership

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Corporate Ownership	-0.002	0.938	-0.068	0.125	0.156	0.435

For the three financial performance indicators (the dependent variables), p-value is greater than .05. There is no significant effect for corporate ownership on the financial performance for the selected firms in Palestine.

The result for this study about the impact of corporate ownership on firm financial performance is not consistent with other studies that show a positive impact (Chaganti & Damanpour, 1991; Hardin, Nagel, Roskelley, & Philip, 2020; Mertzanis et al., 2019). Other studies show a negative effect of corporate/institutional ownership on firms' performance (Boubakri & Ghouma, 2010; Çiftçi, 2016).This study result is consistent with research by Mizuno (Mizuno, 2010) results that show no significant impact of corporate ownership on firms' performance.

In general corporate investors do not search for quick wins by doing trades in the exchange market, they are interested in long-run investment, also they are interested with better governance which includes less risk (Gherghina, Vintilă, & Ţibulcă, 2014; Mintzberg, 1983). Institutional/corporate investors makes an add value to firms as they participate in better monitoring and in searching for better operations and cash management (Hardin et al., 2020)

Thus, Hypothesis 3 is rejected. There is no evidence that corporate ownership has an impact on financial performance.

- **Hypothesis 4 (H4): Foreign Ownership has an impact on financial performance.**

Table 4-26: Regression result for Foreign Ownership

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Foreign Ownership	-0.014	0.654	-0.076	0.113	-0.116	0.555

For the three financial performance indicators (the dependent variabless), p-value is greater than .05. There is no significant effect for foreign ownership on the financial performance for the selected firms in Palestine.

The result for this study about the impact of foreign ownership on firm financial performance is not consistent with other studies that show a positive impact (Çiftçi, 2016; Darweesh, 2015; Marashdeh, 2014; Singhania, Saini, & Gupta, 2015). Kabir et al., (2020), they concluded that large and foreign investors have a positive impact on financial performs but at the same time, they are accepting higher risk compared to domestic investors.

A study by Lindemanis, Loze, & Pajuste (2019) discussed the foreign investor appetite and concluded that foreign investors are investing in less profitable firms but located in higher governance level countries, in addition, more foreign investors support the development of the financial performance. Rebecca & Maggie (2017) added that the expansion of foreign investors motivate firms in developing countries to increase attention for better governance as they are a key force in the capital market.

This study result is consistent with other studies that there is no significant impact of foreign investors on financial performance (Ghazali, 2010; Mizrahi, 2009; Zheka, 2005). Wright & Yanotti (2019) pointed out that a significant impact on financial performance is not related directly to governance but other configurations that should be considered like productivity, which might be better supportive of better financial performance.

In the mid-1990s there were many efforts in the MENA region to attract foreign investors, in Jordan and Palestine as an example the governments developed a suitable legal environment to attract new investors especially foreign (Daraghma, 2010). They were some disadvantage for foreign investors due to their awareness about the domestic environment (Marashdeh, 2014).

Thus, Hypothesis 4 is rejected. There is no evidence that foreign ownership has an impact on financial performance.

- **Hypothesis 5 (H5): Board Size has an impact on financial performance.**

Table 4-27: Regression result for Board Size

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Board Size	0.002	0.389	0.006	0.095	-0.003	0.751

For the three financial performance indicators (the dependent variables), p-value is greater than .05. There is no significant impact of the board size on the financial performance for the selected firms in Palestine.

The result for this study about the impact of board size on firm financial performance show that p-value is greater than .05 but also it is less than .1 for ROE which is considered near to significance and has a positive impact. However the result is not consistent with other studies which show a positive impact (Alabede, 2016; Çiftçi, 2016; Mertzanis et al., 2019; Rodríguez-Fernández, 2015; Schnake et al., 2006).

Another study conducted by (Daraghma, 2010) show that board size has a negative impact which again not consistent with this study.

Darweesh (2015) found a positive impact of board size when measuring the financial performance according to ROA and ROE, but has a negative effect when measuring the financial performance by Tobins'Q.

This study result is consistent with other researches (Bonna, 2012; Di Pietra et al., 2008; Marashdeh, 2014).

Goodstein, Gautam, & Boeker (1994) and Al-amarneh (2014) pointed that a large board is expected to add more experience and relations that should support firms' performance while this might act negatively as the large board faces different coordination issue for meeting arrangement and decision making.

Thus, Hypothesis 5 is rejected. There is no evidence that Board Size has an impact on financial performance.

- **Hypothesis 6: Family-controlled board membership has an impact on financial performance**.

Table 4-28: Regression result for Family-controlled Board Membership

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Family-Controlled Board Membership	0.056	0.075	0.078	0.120	0.084	0.551

For the three financial performance indicators (the dependent variables, ROA, ROE and Tobins'Q) p-value is greater than.05; there is no significant impact of the Family-controlled board membership on the financial performance for select firms in Palestine. For ROA p-value is close to .05, it has a near significant impact on financial performance.

The result of this study is not consistent with other studies that show a positive impact (Chu, 2011; Kabir et al., 2020; Kim, 2006). While the study by Chu (2011) found a positive impact for family ownership, Chu said that the positive impact depends on the role of the family over management to act more control, also the positive impact occurs most likely with small and medium enterprises.

A study for Marashdeh (2014) found a negative impact of Family-controlled board membership on firm performance, Marashdeh added that this negative impact might be due to less experience and managerial skills from the family owners.

Giovannini (2010) found that family ownership and family membership in different board committees has a negative impact of on firms' performance; Giovannini added that weak abilities for family members to establish relationship will increase firms' risk.

Thus, Hypothesis 6 is rejected. There is no evidence that Family-controlled board membership has an impact on financial performance.

- **Hypothesis 7 (H7): The number of Board Committees has an impact on financial performance.**

Table 4-29: Regression result for Number of Board Committees

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Number board committees	0.000	0.878	0.004	0.325	0.004	0.748

For the three financial performance indicators (the dependent variables), p-value is greater than .05. There is no significant impact of the Number of Board Committees on the financial performance for the selected firms in Palestine.

Board committees support the functions of the board; committees are specialized according to different board related tasks. The most popular committee is the audit while there are different other committees like governance, investment, remuneration, human resources, and others. These committees are supposed to reduce the agency problem between the board and management.

As in Table 4-8, the average number of board committees for the study data set is two this is not consistent with the suggested number by Darweesh (2015). Christensen et al., (2010) noted that the role of board committees related to policymaking that should enhance firm performance even if there is no significant impact.

The result for this study is consistent with the other studies (Darweesh, 2015; Puni, 2015), as there is no significant impact for the number of board committees on firms' financial performance.

A study by Heenetigala (2011) found a positive impact for the number of board committees and firm performance; while Bonna (2012) found a negative impact. Both studies are inconsistent with other studies results.

Thus, Hypothesis 7 is rejected. There is no evidence that the Number of Board Committees has an impact on financial performance.

- **Hypothesis 8 (H8): Busy Board Members has an impact on financial performance.**

Table 4-30: Regression result for Busy Board

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Busy Board	0.017	0.264	0.050	0.051	-0.040	0.581

For the three financial performance indicators (the dependent variables) p-value is greater than .05. There is no significant impact of the Busy Board Members on the financial performance for select firms in Palestine.

Busy board members represent interlocks between different boards, they have shares in different firms, in general they have better experience and knowledge; despite these exceptional board members characteristics, this study result found that the proportion of busy board variable has no impact on financial performance which is consistent with Daniliuc, Li, & Wee (2020) study.

Field, Lowry, & Mkrtchyan, (2013) pointed out that Busy board members considered infective especially in monitoring tasks, but they might add value to the firms because of their experience , this is consistent with this study result, the p-value is .051 for ROE as financial indicator, it is very close to significance level . it cannot be ignored that some board members affect firms' value even if they don't act well, this due to their domestic or regional reputation.

Larcker et al., (2007) found a negative impact of the busy board members on financial performance due to less availability and engagement in the board's functions.

Thus, Hypothesis 8 is rejected. There is no evidence that busy board members has an impact on financial performance.

- **Hypothesis 9 (H9): Audit committee independence has an impact on financial performance.**

Table 4-31: Regression result for Audit Committee Independence

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Audit Committee Independence	-0.008	0.153	0.000	0.999	-0.037	0.453

For the three financial performance indicators (the dependent variables), p-value is greater than .05. There is no significant impact of the Audit committee independence on the financial performance for select firms in Palestine.

The audit committee is the most important board committee; it is mentioned in the Palestinian code of governance and international guidelines that the committee should include independent members either partially or fully. The result of this study about the impact of audit committee independence is not consistent with other studies that show a positive impact (Klein, 1998; Setia-Atmaja, 2009). The result of this study might be due to less involvement of independent members in the firm's boards in Palestine because the regulation insists that a board member should own a number of shares, which make him/her normal shareholder even if some firms called him/her independent.

Setia-Atmaja (2009) found that audit committee independence has no impact on financial performance, which is consistent with this study result.

Thus, Hypothesis 9 is rejected. There is no evidence that Audit committee independence has a positive impact on financial performance.

- **Hypothesis 10 (H10): Board Composition has an impact on financial performance.**

Table 4-32: Regression result for Board Composition

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Board Composition	-0.012	0.876	-0.169	0.381	0.109	0.609

For the three financial performance indicators (the dependent variables), p-value is greater than .05. There is no significant impact of the Board Composition on the financial performance for selected firms in Palestine.

Çiftçi (2016) found a negative impact of executive board members on firms' financial performance while other studies found a positive impact (Arosa et al., 2013; Klein, 1998; Mertzanis et al., 2019; Shahrier et al., 2020).

Board composition, the existence of executive board members, might affect the level of monitoring efforts on the management, which is one of the main functions of the board. There will be a conflict of interest for the executive members, their function in the management, and their function in the board, this mixed role will result in a less efficient firm and might affect the financial performance negatively. A negative impact expected for the proportion of executive members in the board, as this is consistent with agency theory; it is understood that agency theory advocates a decrease of executive members and an increase independent members, to perform the audit and control function of the board objectively.

Thus, Hypothesis 10 is rejected. There is no evidence that Board Composition has an impact on financial performance.

- **Hypothesis 11 (H11): Board Independence has an impact on financial performance.**

Table 4-33: Regression result for Board Independence

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Board Independence	-0.019	0.019	-0.012	0.572	-0.018	0.807

For the two financial performance indicators (the dependent variables, ROA and Tobins'Q), p-value is greater than .05. There is no significant impact of Board Independence on the financial performance for select firms in Palestine. But for ROA it significant and has a minor negative impact on financial performance.

The result of this study is not consistent with other studies the found a positive impact on financial performance (Alabede, 2016; Giovannini, 2010; Weir et al., 2002). But this study result is consistent with a study by Rashid (2018) and a study by Çiftçi

(2016) which found that there is no impact for board independence on financial performance regarding ROE and Tobins'Q.

Bonna (2012) suggested that number of independent board member will increase the board independence and is more important than increasing board size, the independent members will help to act more control over the firm.

Thus, Hypothesis 11 cannot be rejected. There is no evidence that Board independence has an impact on financial performance for ROE and Tobins'Q but there is an evidence that Board independence has an impact on financial performance for ROA.

- **Hypothesis 12 (H12): Number of Board Meetings has an impact on financial performance.**

Table 4-34: Regression result for Number of Meetings

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Number of Board Meetings	0.001	0.635	0.001	0.769	0.028	0.045

For the two important accounting financial performance indicators (the dependent variables, ROA and ROE), p-value is greater than .05. There is no significant impact of the Number of Board Meetings on the financial performance for select firms in Palestine; while the p-value for Tobins'Q is less than .05, which is significant for the firm value.

Researches show a positive effect of more meeting to firm performance, others show a negative impact (Chou et al., 2013; Vafeas, 1999).

Vafeas (1999) pointed out that the number and frequency of board meeting frequency is related to corporate governance and ownership structure, Vafeas added that higher or lower meeting frequency is related to firm value and a firms' market activity where boards meet more in a declining value situation. Vafeas point of view is consistent with the result of this study. Number of meetings is significant with Tobins'Q, which is related to firm value but not to accounting financial performance (ROE and ROA). Masulis et al. (2012) discussed the attendant level of boards meetings and found that attendance level is lower when foreign investors exist due to arrangement complications or different time zones.

The number of meetings is not an indicator itself but the need and situation for each firm decide the frequency of meetings; in Palestine their meetings every two months on average.

Thus, Hypothesis 12 cannot be rejected. There is no evidence that the Number of Board Meetings has an impact on financial performance for ROA and ROE, but there is an evidence that the Number of Board Meetings has an impact on financial performance for Tobins'Q.

- **Hypothesis 13 (H13): Board Gender Diversity has an impact on financial performance.**

Table 4-35: Regression result for Board Gender Diversity

	ROA		ROE		Tobins'Q	
variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Board Gender Diversity	-0.021	0.711	-0.016	0.889	-0.379	0.067

For the three financial performance indicators p-value is greater than .05. There is no significant impact of the board gender diversity on the financial performance for select firms in Palestine.

The study result is consistent with Ararat & Yurtoglu (2020) and Mujahed (2017) results. This also consistent with all responses from the interviews; all of the interviewees in Palestine agreed that it is not about gender but qualifications. Alabede (2016) added that diversity is not only about gender but also about different experiences among the board members, which will enhance efficiency and monitoring over firms.

For Tobins'Q, it is close to .05 for which is near significant but here there is negative impact while in other studies it has a positive effect on financial performance as measured by Tobin's q (Carter, D'Souza, Simkins, & Simpson, 2011). Th near significant result with Tobins'Q is consistent with Alabede (2016) and H. Li & Chen (2018).

Board diversity is important to add different knowledge, experience, education, and communications but not about gender, qualifications are what matters.

Thus, Hypothesis 13 is rejected. There is no evidence that Board Gender Diversity has an impact on financial performance..

- **Hypothesis 14 (H14): Duality of CEO and Chairman has an impact on financial performance.**

Table 4-36: Regression result for Duality of CEO and Chairman

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Duality of CEO and Chairman	0.009	0.395	0.036	0.129	-0.015	0.797

For the three financial performance indicators (the dependent variables) p-value is greater than .05. There is no significant impact of the Duality of CEO and Chairman on the financial performance for select firms in Palestine.

Much of the research into corporate governance derived from agency theory, Corporate governance is concerned about the separation of ownership and management; this separation result in a principal-agent problem (Berle & Means, 1932). Agents are the managers and principles are the owners, there exists a conflict of interest problem, with the separation more control needed from the board over the management. Studies analyzed the impact of separation or duality of CEO and chairman, studies found positive impact, others found negative impact and others found no impact (Çiftçi, 2016; Kabir et al., 2020; Marashdeh, 2014; Rodriguez-Fernandez et al., 2014). In Palestine, the number of firms with the duality of CEO and chairman decreased as a response to the code of governance (Figure 4-16), but this decrease does not show an impact on the financial performance it is related to more monitoring issues other than financial performance.

Thus, Hypothesis 14 is rejected. There is no evidence that the Duality of CEO and Chairman has an impact on financial performance.

Control Variables

- Leverage

Table 4-37: Regression result for Leverage

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Leverage	-0.101	0.055	-0.225	0.034	-0.453	0.000

There is no agreed conclusion from different studies about leverage significance, either positive, negative, or no impact on firm performance. Leverage with a low rate is considered a positive figure as it show that a firm has lower debit and so fewer commitments and availability to use the cash for next potential investments; at the same time, this might be considered negative issue because management is not using liquidity and so less return. On the other hand, a higher rate of Leverage may be a positive issue, which shows that firms are investing or might be negative due to risks and commitment. Çiftçi (2016) found that a lower Leverage rate would result in better performance as this will allow managers to use free cash in new high return investment opportunities. This is a positive impact on financial performance is supported also by (Mertzanis et al., 2019). Daraghma (2010) and Darweesh (2015) found that there is no impact for leverage on financial performance.

This study analysis shows that leverage is significant with a negative coefficient sign for Tobins'Q, so the more leverage results in less financial performance this due to the periodical due interest for firms debit and it seems that firms debits are not used for investment purposes.

- **Firm Size**

Firm size for this study categorized and leveled from small to medium to large (1,2,3) according to the number of employees which is consistent with other studies by Fawawneh (2013) and Sumairi (2014).

Table 4-38: Regression result for Firm Size

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Firm Size	0.024	0.044	0.045	0.001	-0.175	0.329

As described in Figure 4-18 large firms for the the seleced firms in this study is the majority, it is about 85%. For the ROA and ROE, the p-value is less than .05, there is a significant positive impact of firm size on the financial performance for the select firms in Palestine.

The result of this study is consistent with other studies by (Çiftçi, 2016; Gonenc & Aybar, 2006); other studies found a negative impact of the firm size on performance(R. R. Bhatt & Bhattacharya, 2017; Lopez-Valeiras, Gomez-Conde, & Fernandez-Rodriguez, 2016).

It is obvious that decision-making can be easier in small firms, the study did not found a study that support this assumption, moreover large firm, considered more structured and stable comparing to small firms.

- **Firm Age**

Table 4-39: Regression result for Firm Age

	ROA		ROE		Tobins'Q	
Variable Name	Coef.	P>z	Coef.	P>z	Coef.	P>z
Firm age	0.001	0.124	0.001	0.122	-0.004	0.070

For all financial performance indicators the p-value is greater than .05. There is no significant impact of the Firm Age on the financial performance for select firms in Palestine.

The result of this study is not consistent with other studies (R. R. Bhatt & Bhattacharya, 2017; Çiftçi, 2016) . study by Rossi (2016) pointed that firms' aging has also a positive impact but for different cases, aging show different results according to firms behavior over years.

In Palestine, most of the firms considered not too old comparing to other firms in MENA as example. This due to the political agreement, which makes a suitable environment for new firms' establishment. Nevertheless, p-value is near significance.

In general, older firms show positive performance than newly established firms except in the firm values because the younger firms are more attractive for trading in the stock market which increases the market share prices on the contrary to older firms where the firm value looks more stable.

A summary of the hypotheses and regression results given in Table 4-40 below.

Table 4-40: Summary of hypotheses

Variable Name	Hypothesis	Sig. for ROA	Sig. for ROE	Sig. for Tobins'Q
Ownership Concentrtion	H1: Ownership concentration has an impact on financial performance	Rejected	Rejected	Rejected
Public Ownership	H2: Public Ownership has an impact on financial performance	Not Rejected	Not Rejected	Rejected
Corporate Ownership	H3: Corporate ownership has an impact on financial performance	Rejected	Rejected	Rejected
Foreign Ownership	H4: Foreign ownership has an impact on financial performance	Rejected	Rejected	Rejected
Board Size	H5: Board Size has an impact on financial performance	Rejected	Rejected	Rejected
Family-controlled board membership	H6: Family-controlled board membership has an impact on financial performance	Rejected	Rejected	Rejected
Number of Board Committees	H7:Number of Board Committees has an impact on financial performance	Rejected	Rejected	Rejected
Busy Board	H8:Busy Board has positive an on financial performance	Rejected	Rejected	Rejected
Audit Committee Independence	H9: Audit Committee Independence has an impact on financial performance	Rejected	Rejected	Rejected
Board composition	H10: Board composition has an on financial performance	Rejected	Rejected	Rejected
Board Independence	H11: Board Independence has an on financial performance	Not Rejected	Rejected	Rejected
Number of meetings	H12: Number of meetings has an impact on financial performance	Rejected	Rejected	Not Rejected
Board gender diversity	H13: Board gender diversity has an impact on financial performance	Rejected	Rejected	Rejected
Duality of CEO and Chairman	H14: Duality of CEO and Chairman has an on financial performance	Rejected	Rejected	Rejected

4.4 Interviews summary

Table 4-41 contains summary of interviews. Interviewees' answers arranged according to the questions in Appendix C. They agreed that corporate governance in Palestine is still in the development and implementation phase.

Firms do efforts to implement code of governance but it is not enough especially for not-listed firms in PEX. Interviewees agreed that governance is important for all stakeholders. The majority of them think that it has an impact on firms' financial performance. Ownership structure represents owners; they think it is important and has an impact on firm performance.

Independent members are important in board structure but they need to have the needed knowledge and experience related to firms' strategy. Their existence it not necessary to have an impact on financial performance. Interviewees agreed that audit committee should be mandatory, other committees formed according to each firm needs, but committees are not necessary to have an impact on financial performance. Busy board members are important for their connection and they might have a positive impact on firms' performance. Board meetings are important to discuss firms' performance.

About the duality of CEO and chairman, the majority of them said that it is preferred for firms' governance but does not have a direct impact on financial performance. Board diversity is important for firms' performance, but it is about qualification not about gender. They believed that corporate governance is important to attract new investors, especially foreign.

Finally, majority of them said that governance has and impact on financial performance, but also it has an impact in reducing firms' risks and in enhancing firms' sustainability and productivity. They agreed that firms should give more concern for governance implementation.

Table 4-41: Interviews summary

Question	Mr. Maher Al Masri	Mr. Ahmad Awaidah	Dr. Hisham Awartani
What do you think about corporate governance in Palestine?	There is development especially after 2009	Still in the development phase and there is a deviation from one firm to another	Still in development phase, more efforts are needed from Firms and regulators
What do you think about firms efforts to implement code of governance?	Accepted but they need to do more efforts	There is different efforts according to the firm's culture and available resources, Bank are better than other sectors	Efforts from firms are not enough
Is there impact of corporate governance on financial performance?	It has impact on financial performance but but not major	has an impact on financial performance, reputation, and value	It has positive impact on financial performance
What about ownership structure and its relation to governance and performance?	Ownership is concentrated and it effects performance	It is important for performance and governance level	It is important to have diversity in board structure not just the owners
What do you think about board structure and independent members?	Independent members are important, through last years there are more independent members on boards, but it is more about member qualification, Executives are not preferred in board	Firms are trying to add independent members	It is important to have at least two independent members
What about board committee, especially the audit?	Audit is very important committee, other committee may merge	They are important especially the audit committee, in addition to governance and investment committees	Audit and governance committees are most important
What do you think the impact and roe of busy board members?	It is positive and there is no restriction about their number	They have impact due to their connections	They have positive role due to their experience and connections
What do you think about meeting frequency?	It is important	It is important	It is important according to regulations
What about duality of CEO and chainrman?	Not preferred	There should be separation	Duality not preferred
Do you think it is important to have female in the board, and their effect?	diversification is important but it is about qualification	it is important but is not related directly to performance	It is not about gender, what matters is the qualification
What is the impact of governance on new investments especially foreign?	It has minor effect, firms performs is more important	Governance is so important in attracting foreign investors who give much concern for firms' governance level	Governance is so important in attracting foreign investors and for different stakeholders
Do you want to anything else about corporate governance?	It is important for firms' productivity, risk mitigation, and for firms' sustainability	Government does not influence firms	Firms should be more aware of the importance of governance and related laws

Question	Mr. Iyad Masrouji	Mr. Mohammd Al Amoor	Mr. Mohammd Al Amoor
What do you think about corporate governance in Palestine?	Governance is still in the development phase, and He added that most of the firms in Palestine are new and owned by families	governance is important to protect stakeholders and it is still in the development phase	governance in Palestine still new and in the development and implementation phase
What do you think about firms efforts to implement code of governance?	Accepted	Accepted and it is good for listed firms other have poor concern for governance	Accepted but banks show more concern
Is there impact of corporate governance on financial performance?	no direct relation between corporate governance and firms' financial performance	Does not have direct impact	It does not have direct impact
What about ownership structure and it's relation to governance and performance?	Ownership is the main factor for a firm's success , board members should have specific knowledge/skills set according to a firm strategy	Board should represent all shareholders with big and small portions	ownership is not the major concern for members, members knowledge and experience should be considers
What do you think about board structure and independent members?	their existence is important and enrich the board function for better firm development	independent members are important but within specific constraints, and they should have needed knowledge and experience to support the firm mission	ownership and independent members are two major parts of the board structure, but skills matters in members' assignments
What about board committee, especially the audit?	Audit is mandatory, other committees are related to a firm strategy	audit committee is important, other committee according to each firm	audit committee it should be fully independent and exist in all firms, other committees might have mixed membership
What do you think the impact and roe of busy board members?	Busy board member may add connections and knowledge to the board.	They are good for their connections	They might have impact
What do you think about meeting frequency?	Two months meeting is accepted	Frequent meting are needed	It does not have direct impact
What about duality of CEO and chainrman?	There should be separation	There should be separation	Separation should be mandatory
Do you think it is important to have female in the board, and their effect?	They should exist on boars and they have a positive impact	He insists that it is about qualification not about gender	their membership might not have specific impact on financial performance
What is the impact of governance on new investments especially foreign?	Foreign investors have a high concern for firms' governance, boards, and management behavior	It is not major judgment	it is important
Do you want to anything else about corporate governance?	Governance is good for firms' sustainability and different stakeholders	it is important for firms but its measurement varies from firm/sector to another	Firms should do more efforts as governance helped to organize firms

CHAPTER FIVE: DISCUSSION AND CONCLUSION

5.1 Overview

Good corporate governance is centered on the principles of accountability, transparency, fairness, and responsibility in the management of firms (Ehikioya, 2009). Despite the tangled circumstances in Palestine and complex economic situation, none of the listed firms collapsed; one of the reasons for that is the developed code of corporate governance and the commitment from managements.

The focus of this study is to examine the impact of corporate governance on firms' financial performance. The study also tried to explain corporate governance as approach, development and systems in addition to showing the importance of corporate governance.

Firms with good governance have higher profitability (Kowalewski, 2016). This research answered the main questions about the impact of corporate governance and its impact on the financial performance of the listed companies in Palestine. Different accredited tools used and scientific research method implemented to find out the results and recommendations.

Firms' data analysis conducted in both dimensions longitudinal (time series) and cross-sectional, panel data set, data collected for the years 2013-2019. The period selected due to data availability and it is after the development of the code of governance in Palestine in 2009. Which is the main reference for the principles and guidelines for governance implementation in Palestinian firms. Sample data is forty firms for seven years, which result in 280 data rows. Data tested for balancing, Multicollinearity, Heteroscedasticity and Autocorrelation. Then data described and analyzed with multi-regression random effect model.

Although corporate governance got the attention of different studies in MENA region, it is considered as new need for different firms, especially after the 2008 international financial crisis. Last decades witnessed the development of the code of governance in Palestine, Jordan, and other countries. The code of governance is still in the development phase. This study expected to enhance the understanding of the impact of corporate governance on the financial performance in Palestine, especially for the listed firms.

In general, firms show progressing concern in implementing the code of governance including the function of the board, board structure, board committees, and others. While collecting data from different annual reports, it is clear that firms associated efforts towards developing firms' governance level. Firms believed that it is important to implement and sustain accepted governance for the benefit of all stakeholders. Regulators and official organizations pointed to the importance of governance implementation within the firms and in all contacts with investors and other stakeholders.

While corporate governance is a firm-level concern. The implementation and follow-up is a major function for boards. Boards believed that abiding by corporate governance would be a major action to protect shareholders and preserve firms' sustainability. For years, in Palestine, boards formed different committees especially audit and governance to help them for an efficient level of governance including board and management functions.

Corporate governance does not have one standard measurement through different countries; some countries developed an index or more. Palestine still did not develop a governance index. While studying the level of corporate governance for the countries where there are corporate indices, studies used the indices in analysis but with other variables. Indices, in general, represent the ownership structure and board attributes, like the duality of CEO and Chairman, board composition and others. For this study, a model developed including most influential variables according to the literature and data availability.

In Palestine, corporate governance still in development and implantation phase, and not expected to have significant impact on firms' financial performance. Code of governance used as reference, there are no penalties for firms not implementing governance principles. Major motives for governance implementation are: firms' reputation and the desire to attract new investors.

The Study found that public ownership, board independence, and number of meeting have significant impact of firms' financial performance. While Ownership concentration, Corporate ownership, Foreign ownership, Board size, Family-controlled board membership, Number board committees, Busy Board, Audit committee independence, Board composition, Board gender diversity and Duality of CEO and chairman does not have significant impact on firms' financial performance. See Table 4-22, it contain summary for all testing results.

5.2 Discussion

In line with previous studies, the non-significant result for ownership concentration is not consistent with other studies (Abdelkarim & Alawneh, 2009; Adewunmi & Amole, 2013; Cho & Kim, 2007; Delgado-García et al., 2010; Javid & Iqbal, 2008; M. M. Omran et al., 2008). Increased ownership concentration is expected to add more power to the board and influence board' decisions (Claessens et al., 2002; Darweesh, 2015). In Palestine, despite there is tangible ownership concentration but the number of board members who represent the big shareholders are less than 50% of the average board size (Figure 4-16), which means that the block shareholders might not have enough control over firms. This result is not consistent with some interviewees' feedback in this study, they said that ownership concentration has an impact on financial performance.

Substantiates previous finding in the literature support the results of this study about public ownership. Çiftçi (2016) analyzed corporate governance in Turkey and found a negative impact of public ownership on firm performance, which is consistent with this study result. Also, Berle and Means (1932) and Mzang'unyi (2011) pointed that firms with high percentage of public ownership tend to be under-performance due to less control. Firms with high percentage of public ownership mean that more small shareholders so less control over firm, it is assumed that public owners' main concern is quick wins (Marashdeh, 2014).

Consistent with other studies (Ghazali, 2010; Jeon et al., 2011; Mizuno, 2010), there is no significant impact of corporate and foreign ownership on firms financial performance. While results are not consistent with other studies (Boubakri & Ghouma, 2010; Çiftçi, 2016; Marashdeh, 2014; Singhania et al., 2015). Corporate and foreign investors search for long time investments, which might not occur through the study period. They search also for less risky firms other than quick profitable ones (Gherghina et al., 2014; Mintzberg, 1983). Corporate and foreign investors add more control over firms and so they aim to have sustainable firms other than risky profitable ones (Hardin et al., 2020).

Board size result is consistent with other studies (Bonna, 2012; Di Pietra et al., 2008; Goodstein et al., 1994), it does not have significant impact of firms' financial performance. Studies found negative impact (Arosa et al., 2013; Daraghma, 2010; Guest, 2009), other studies found positive impact (Alabede, 2016; Çiftçi, 2016; Mertzanis et al., 2019; Rodríguez-Fernández, 2015; Schnake et al., 2006). Board size itself is not an indicator; it is about the experience and knowledge of board member and their harmony, which may lead to better performance. Board efficiency is not decided by size, so no judgment about board size and it is impact on firm performance, which is consistent with interviewees' feedback who agreed that qualification of board members is what mattered.

Study found that family board members do not impact firms financial performance which is not consistent with other studies (Kim, 2006; Tutun Mukherjee & Sen, 2019; Setia-Atmaja, 2009; Villalonga & Amit, 2006). The study result show that family-controlled membership decreased over years (Figure 4-8) and it is average is about 13% (Table 4-7). Their low percentage explains the study result, it is an indicator of their low influence in boards and may reflect little power to control decisions, another reason is that family board members are related with old firms, which have sustainable profits, and does not have critical change over time, which is clear in Figure 4-8. The minor decrease in their percentage over the study years did not have an impact on firms' financial performance.

Number of committees result is consistent with previous studies (Darweesh, 2015; Puni, 2015), that there is no significant impact on firms' financial performance. The result is not consistent with other studies that found positive/negative impact (Bonna, 2012; Heenetigala, 2011). In Palestine, firms mainly have the audit committee; other committees are different through firms. Board committees are not assigned for profit making activities especially the audit committee but for control, which explain that number of committees does not have significant impact. Another point is that average number of committees is two and does not change through the study period (Table 4-8) which is stable number and so does not impact performance.

In line with literature review, the result form busy board members is consistent with other studies (Elnahass et al., 2020; Masulis et al., 2012). While the study result for busy board members is not consistent with other studies, which found that busy board members have negative impact on firms' performance (Fich & Shivdasani, 2006a; Larcker et al., 2007). The busy board members are expected to have a positive influence on financial performance due to their reputation and diversity of boards' experience, in addition to a wide list of networking with other firms. As shown in Figure 4-10, percentage of busy board members does not have significant change over study years, which explain that it does not have impact on financial performance. It is known that dependent variable (financial performance) is affected by independent variables (Wooldridge, 2012).

The finding for the study indicated that audit committee independence does not has an impact on financial performance. This is consistent with Setia-Atmaja (2009) study and not consistent with other studies that show a positive impact for audit committee independence (Klein, 1998; Setia-Atmaja, 2009). The result for this study can be explained by two reasons. First, audit committee independence is mostly zero for the study period and there is no change in its value, so it does not affect the financial performance. Second, the audit committee is related to control activities and not for profit making activities. The audit committee is the most important board committee. It is required according to the Palestinian code of governance and international guidelines, the committee should include independent members either partially or fully.

The board composition does not have an impact on firms' financial performance which is in not consistent with Çiftçi (2016) study, that found a negative impact for board composition and not consistent with other studies that show positive impact for board composition on firms' financial performance (Arosa et al., 2013; Klein, 1998; Mertzanis et al., 2019; Shahrier et al., 2020). Board composition has high percentage in Relationship-Based Systems where more executive and employees exist in boards. In Palestine, this is not the case, average percentage of executive member on boards is 7% which is too low (Table 4-11), also the percentage has miner decrease through study period (Figure 4-11). The no impact of board composition explained by three reasons. First, the percentage is very low. Second, the percentage does not has a major change through the study period that can affect the dependent variables. Third, firms tend to exclude executives from board structure according to recommendation from code of governance and to do have more control over firms.

The result for board independence revealed that is has significant impact on firms’ financial performance which is consistent with previous studies (Alabede, 2016; Giovannini, 2010; Weir et al., 2002). The study result is not consistent with other studies (Çiftçi, 2016; Rashid, 2018) which found that there is no impact for board independence on financial performance. A board considered independent if there are at least two members in the board structure. Through the study years, number of independent board increased from two to five, this number is low but it is 150% increase, which show a significant impact on financial performance. This result explained by regulation in Palestine. Regulators pushed on firms to include more independent members on board. Moreover, it is noted that new independent members are qualified, have special knowledge, and experience which enrich firms’ values and performance.

Number of board meeting found to have an impact on firms’ financial performance which is consistent with Vafeas (1999) study. Average number of meeting for the study years is six, which is integrated with related recommendations in the Palestinian code of governance. The positive impact explained by two reasons. First more meeting show more concern over firms, board are aware of any deviation from the plans/goals, so board can do the needed correction (Eluyela et al., 2018; Mang’unyi, 2011). Second, the average annual meetings is six and it is bimonthly. When there is any exceptional more meeting, this is an indicator that the firm will make a strategic action, which may affect the trading volume and shares price in the market and so increase the firms’ market value.

In line with the literature review, the study result for board gender diversity is consistent with different studies, that does not have an impact on firms' financial performance (Campbell & Mínguez-Vera, 2008; Rose, 2007; Torchia et al., 2015). Despite female members increased over the study period (Figure 4-14) but it does show a significant impact on performance. The result also consistent with interviewees' feedback, they agreed that, what is important is member qualification not gender. The result can be explained by three reasons. First, proportion of female member is very low (Table 4-14), it did not have significant impact. Second, change in female proportion over the study period is small and still minor to have a significant impact. Third, diversity is about qualification not about gender, so male or female does not matter, what matters is member ability to add value to the board/firm.

The Study found that Duality of CEO and chairman does not impact the firms' financial performance, which is consistent with study by Dalton & Dalton (2011) who found that no evidence supports the effect of Duality of CEO and chairman on firms' performance. The no impact result for this study is not consistent with other studies that found a positive impact (Fama & Jensen, 1983a; Vintilă & Gherghina, 2012). The results of this study is not consistent also with studies that found a negative impact of Duality of CEO and chairman on firms' financial performance (Çiftçi, 2016; Delgado-García et al., 2010; Veprauskaite & Adams, 2013). The result represent the case of palestine and can be explained by three reasons. First, average number of firms who have dualty does not have a major change through the study period. Second, In Palestine there is a separation between CEO and chairman except for few firms, which also separeted the position through the study period (Figure 4-16). Third, Position separation is a requirement from the firms' itself and as response to code of governance in 2009 and different regulations, which considered the separation an urgent issue for risk mitigation and firms healthiness.

5.3 Theoretical Discussion

In line with the literature, this study and results argued that impact of corporate governance on firms' financial performance cannot be explained by one corporate governance theory. Different corporate variables like ownership concentration and duality of CEO and chairman, auditing are aligned to agency theory; while busy board members, foreign and corporate investors are aligned to resource dependence theory; board compositing is aligned to stewardship theory and finally the concern from boards towards society and different employees is aligned to stakeholder theory. So one corporate governance theory cannot explain corporate governance system in Palestine and may be in other countries.

Different codes of governance insisted the separation between CEO and chairman. In Palestine, majority of firms separated the two positions (Table 4-15) which might result is principal-agent problem. Agency cost is added as part of performing more control over management. The agency problem assumed to exist in Palestinian firms due to separation of CEO and chairman which is integrated with agency theory. Last years, in Palestine, it is noticed the increasing number of committees (Figure 4-9). This is an indicator for more control over management, which is also integrated with the agency theory.

There are some studies that did not support the separation of CEO and chairman, and recommend more executive on boards, so decisions will go smooth and conflict between management and the board will be the minimum (Fama & Jensen, 1983a; Vintilă & Gherghina, 2012); this point integrated with stewardship theory, studies assume there is no conflict between management and board.

Although there will be a conflict of interest for the executive members, their functions in the management and in the board, this mixed role will result in a less efficient firm and might affect the financial performance negatively which consistent with agency theory. It is understood that agency theory advocates a decrease of executive members and an increase independent members, to perform the audit and control function of the board objectively

According to stewardship theory, the mixed board structure from inside and outside represent an efficient leadership and will maximize the firm performance and maximize shareholders' wealth (Heenetigala, 2011). This is not found in Palestinian firms, the average percentage for executive members is 7% (Table 4-11). This mean there very few executive on board, so study result is not integrated with stewardship theory.

Average percentage of foreign ownership is 28%, for corporate ownership it is 38% (Table 4-4), for busy board members it is 44% (Table 4-9). This is an indicator that this study results integrated with resource dependency theory. As discussed earlier foreign investors are expected to add value to firms due to their experience and connections. Corporate owners invested in different local firms, which means assignment of different board members for different firms forming an interlock framework. This can be supported by higher rate of busy board members[9]. It is indicator that there is enough interlocks in the Palestinian market, which is integrated with resource dependency theory.

5.4 Conclusion

Corporate governance witnessed major changes in the last decades. There is no one standard code of governance for all countries; each country developed its code of governance according to its regulation and governance model[10]. Countries have also different progressing regarding the implementation of code of governance. The code of governance in Palestine is a preferred reference, which can justify the minor effect of corporate governance on firms' financial performance.

According to the study and in line with research questions, there are no relations for corporate governance variables with firms' financial performance except for public ownership, board independence and number of board meeting. Even there is significant impact for board independence and number of meeting but they have a minor impact, the value of their coefficient are -0.019 and 0.028 respectively (Table 4-22).

The results of this study indicated that, **in general corporate governance does not have an impact on firms' financial performance**. This is the answer for the study main question "**what is the Impact of Cooperate Governance on Financial performance of selected Palestinian Companies**?" The answer is not consistent with

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[9] Busy board member who is board member in another three more boards

[10] Market-base,Relationship-based and Hybrid-bases models

interviewees' feedback, they believe that corporate governance is important to firms' performance and has impact on it.

Corporate governance is not about enhancing firm's financial performance. Denis & McConnell (2003) pointed that corporate governance focused on protecting shareholder rights, on transparency, and on accountability. While Mallin (2013) pointed that different reasons makes corporate governance important for firms. It help firms to have an appropriate control system, and to prevent authority obsession. Governance is concerned with relationship and interests of different stakeholders and it encourages transparency and accountability. This study result is not consistent with other studies that show a positive relation between corporate governance and firms' financial performance (Black, 2001; M. E. Brown & Treviño, 2006; Dincer & Dincer, 2013).

Firms' financial performance affected by different inputs like productivity, liquidity human resources practices and organizational communication (Barbuta-Misu, Madaleno, & Ilie, 2019; Flamholtz & Kannan-Narasimhan, 2005; Wright & Yanotti, 2019). Governance is not the major input for financial performance.

There were different limitation for this study. The corporate governance data were not available from different sources, the study limited to variables that have available data through the study period. The developed multiple-regression model does not explain the impact of independent variables on the firms' financial performance. R^2 for ROA , ROE and Tobins'Q are 0.2922, 0.2809 and .0303 respectively. This mean that used variables described only 29%, 28% and 3% from the financial performance. There are other variables impacts the financial performance, not necessarily to be other corporate governance variables. Moreover, most of the listed variables (Table 3-1) does not have a major change in their values over the study period and so it does not have a major impact on financial performance, which is justified but the value of R^2 that other variables are missing.

5.5 Implication

In Palestine corporate governance still in the development phase. Despite the code of governance developed in 2009, there is no Palestinian governance index. Also PCMA assessed the firms govern level only one time in 201 and did not publicize the results

After the development of the code of governance in Palestine, positive efforts done by different firms to abide by governance principles and codes. Efforts were not at the same level from different firms; some show accelerated adherence, others show slow implementation. In Palestine, the code of governance developed to encourage firms to adapt for governance and be healthy firms. Contents and regulation of the code of governance contain a majority of "preferred" points not compulsory.

Corporate governance is worth implementation, it might not have a positive impact on financial performance, as seen in this study results, but level of corporate governance is one of the factors that affect financial performance; there are other factors like level of products, services, customer satisfaction, shareholders turnover, firms reparations, firms sustainability, and others. Implementation of corporate governance principles should start from the board down to the first line of employees will provide a healthy environment for accountability and will enhance the relationship with shareholders and stakeholders. In addition, the level of governance on firms and country-level will help in attracting new foreign investors, which will help in developing the economy.

5.6 Recommendations for future researches

Corporate governance in Palestine is in the development phase, more researches with more data will help to measure the impact of corporate governance in firms' performance with other measures.

Other researches recommended measuring satisfaction and impression about corporate governance from different stakeholders; like shareholders, future investors, customers, and other related parties.

Researches recommended for Palestine and other countries in the region as conditions are mostly similar.

Board diversity in this research focus only on Female/male diversity, while there other diversity issues that can be tested, like country of origin, level of education educational, cultural. Further researches may found other significant impact for other diversification on financial performance.

The study duration is 2013-2019, data it is after four years of developing the code of governance in Palestine, it is recommended to conduct further research as the implementation of code of governance is progressing so what is found to be insignificant might be significant for different future researches.

There were limitation for this research especially about data availability. It is recommended that PEX or other institute prepare a standard template to contain all corporate governance variables, so data will be easy and accurate for future researches.

Despite this research investigated fourteen independent variables, which are considered large number of variables comparing to other studies. It is recommended to add more variable(s) in future research that may have significant impact, variables like board member experience, board member experience, executive compensation.

In coordination with PCMA, it is recommended to design a Palestinian corporate governance index, i can easily reflect the level of governance for each firm and can be used in other research to analyze its' impact on financial performance.

This research targeted the listed firms in PEX, it is recommended to conduct researchers for not listed firms it may have different results and implication.

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APPENDICES

7.1 Appendix A. Firm-level corporate governance practices

Panel A: Board

1. All directors attended 75% of board meetings or had a valid excuse.
2. CEO serves on the boards of two or fewer public companies.
3. Board is controlled by >50% independent outside directors.
4. Board size is at greater than five but less than sixteen.
5. CEO is not listed as having a related-party transaction.
6. Compensation committee composed solely of independent outsiders.
7. Chairman and CEO positions are separated, or there is a lead director.
2. Nominating committee composed solely of independent outsiders.
3. Governance committee exists and met in the past year.
4. Shareholders vote on directors selected to fill vacancies.
5. Governance guidelines are publicly disclosed.
6. Annually elected board (no staggered board).
7. Policy exists on outside directorships (four or fewer boards is the limit).
8. Shareholders have cumulative voting rights.
9. Shareholder approval is required to increase/decrease board size.
10. Majority vote requirement to amend charter/bylaws (not supermajority).
11. Board has the express authority to hire its own advisers.
12. Performance of the board is reviewed regularly.
13. Board-approved succession plan in place for the CEO.
14. Outside directors meet without CEO and disclose number of times met.
15. Directors are required to submit resignation upon a change in job.
16. Board cannot amend bylaws without shareholder approval or can do so under limited circumstances.
17. Does not ignore shareholder proposal.
18. Qualifies for proxy contest defenses combination points.

Panel B: Audit committee

19. Consulting fees paid to auditors are less than audit fees paid to auditors.
20. Audit committee composed solely of independent outsiders.
21. Auditors ratified at most recent annual meeting.

Panel C: Anti-takeover provisions

22. Single class, common.
23. Majority vote requirement to approve mergers (not supermajority).
24. Shareholders may call special meetings.
25. Shareholders may act by written consent.
26. Firm has either no poison pill or a pill that is shareholder approved.
27. Firm is not authorized to issue blank check preferred stock.

Panel D: Compensation and ownership

28. Directors are subject to stock ownership requirements.

29. Officers are subject to stock ownership guidelines.
30. No interlocks among compensation committee members.
31. Directors receive all or a portion of their fees in stock.
32. All stock-incentive plans adopted with shareholder approval.
33. Options grants align with firm performance and reasonable burn rate.
34. Officers' and directors' stock ownership is at least 1% but not over 30% of total shares outstanding.
35. Repricing prohibited.

7.2 Appendix B: Listed Firms in PEX

Firm Code	Sector	Firm Name
ABRAJ	Service	AL-WATANIAH TOWERS
AHC	Service	THE ARAB HOTELS
AIB	Banks	ARAB ISLAMIICC BANK
AIG	Insurance	AHLIEA INSURANCE GROUP
APC	Industry	AL-AQARIYA TRADING INVESTMENT
APIC	Investment	ARAB PALESTINIAN INVESTMENT - APIC
AQARIYA	Investment	AL-AQARIYA TRADING INVESTMENT
ARAB	Investment	ARAB INVESTORS
ARE	Service	ARAB REAL ESTATE ESTABLISHMENT
AZIZA	Industry	PALESTINE POULTRY
BJP	Industry	Beit Jala Pharmaceutical
BOP	Banks	Bank of Palestine
BPC	Industry	BIRZEIT PHARMACEUTICALS
ELECTRODE	Industry	AL SHARK ELECTRODE
GCOM	Service	GLOBALCOM TELECOMMUNICATIONS
GMC	Industry	GOLDEN WHEAT MILLS
GUI	Insurance	GLOBAL UNITED INSURANCE
ISBK	Banks	PALESTINE ISLAMIC BANK
JCC	Industry	JERUSALEM CIGARETTE
JPH	Industry	JERUSALEM PHARMACEUTICALS
JREI	Investment	JERUSALEM REAL ESTATE INVESTMENT
LADAEN	Industry	PALESTINE PLASTIC INDUSTRIES
MIC	Insurance	AL MASHRIQ INSURANCE
NAPCO	Industry	NATIONAL ALUMINUM AND PROFILE - NAPCO
NCI	Industry	THE NATIONAL CARTON INDUSTRY
NIC	Insurance	National Insurance
NSC	Service	NABLUS SURGICAL CENTER
OOREDOO	Service	National Telecom
PADICO	Investment	PALESTINE DEVELOPMENT & INVESTMENT
PALAQAR	Service	PALAQAR FOR REAL ESTATE DEVELOPMENT & MANAGEMENT
PALTEL	Service	PALESTINE TELECOMMUNICATIONS
PEC	Service	Palestinian Electricity Company
PHARMACARE	Industry	DAR AL-SHIFA PHARMACEUTICALS
PIBC	Banks	PALESTINE INVESTMENT BANK
PICO	Insurance	PALESTINE INSURANCE
PID	Investment	PALESTINE INVESTMENT & DEVELOPMENT
PIIC	Investment	PALESTINE INDUSTRIAL INVESTMENT
PRICO	Investment	PALESTINE REAL ESTATE INVESTMENT

PSE	Banks	PALESTINE SECURITIES EXCHANGE
QUDS	Banks	Al-Quds Bank
RSR	Service	THE RAMALLAH SUMMER RESORTS
SANAD	Investment	SANAD Construction Resources
TIC	Insurance	AL-TAKAFUL PALESTINIAN INSURANCE
TNB	Banks	THE NATIONAL BANK
TRUST	Insurance	Trust insurance company
UCI	Investment	UNION CONSTRUCTION AND INVESTMENT
VOIC	Industry	THE VEGETABLE OIL INDUSTRIES
WASSEL	Service	PALESTINIAN COMPANY FOR DISTRIBUTION & LOGISTICS SERVICES

7.3 Appendix C: Interview questions

Questions were about:

1. Corporate governance in Palestine, development, implementation and assessment
2. Board structure and ownership
3. Committees number and function
4. Independent members
5. Female members
6. Busy board members
7. Board composition and the executive role of the board
8. Board meetings
9. Separation of CEO and Chairman

Questions List:

1. What do you think about corporate governance in Palestine?
2. What do you think about firms efforts to implement code of governance?
3. Is there impact of corporate governance on financial performance?
4. What about ownership structure and it's relation to governance and performance?
5. What do you think about board structure and independent members?
6. What about board committee, especially the audit?
7. What do you think the impact and roe of busy board members?
8. What do you think about meeting frequency?
9. What about duality of CEO and chainrman?
10. Do you think it is important to have female in the board, and their effect?
11. What is the impact of governance on new investments especially foreign?
12. Do you want to anything else about corporate governance?