

**An-Najah National University  
Faculty of Graduate Studies**

**The Relationship Between Corporate  
Governance and Financial Performance of  
Corporations Listed in Palestine Exchange:  
Mediating Effect of Disclosure Quality**

**By  
Fawzi Sharif Hussein Hussein Ali**

**Supervised by  
Dr. Muath Asmar  
Dr. Muiz Abu Alia**

**This Thesis is Submitted in Partial Fulfillment of the  
Requirements for the Degree of Master in Accounting, Faculty of  
Graduate Studies, An-Najah National University, Nablus,  
Palestine.**

**2018**

**The Relationship Between Corporate  
Governance and Financial Performance of  
Corporations Listed in Palestine Exchange:  
Mediating Effect of Disclosure Quality**

**By  
Fawzi Sharif Hussein Hussein Ali**

**This thesis was defended successfully on 28/5/2018, and approved by**

**Defense Committee Members**

**Signature**

**1. Dr. Muath Asmar / Supervisor** .....

**2. Dr. Muiz Abu Alia / Co-Supervisor** .....

**3. Dr. Saher Aqel / External Examiner** .....

**4. Dr. Ghassan Daas / Internal Examiner** .....

## ***Dedication***

***This thesis is dedicated to my parents***

***For their endless love, support and encouragement***

***To my brothers for their love, sincere feelings and their  
moral support***

***To my sisters who supported me and shared my worries***

***To my friends for their continuous support***

***To all who prayed for me***

***To all whom I loved and knew***

## *Acknowledgments*

*First, I need to express my deep gratitude to God who gifted me his blessings, and reconciled me to accomplish my studies and get the Master's degree. Thanks God for granting me more than what I deserve, and for your continuous care and generosity.*

*I would like to thank both of my supervisors Dr. Muath Asmer and Dr. Muiz Abu Alia for their support throughout the several months of work of my Master thesis, keeping me going when times were tough, asking insightful questions, and offering invaluable advice.*

*I am also grateful to all doctors in accounting and finance departments at An-Najah National University for their continued support and guidance from day one of my Master's work.*

*I am indebted to my external and internal examiners Dr. Saher Aqel and Dr. Ghassan Daas for their efforts, whom attendance of my defense is appreciated.*

*I would like to extend my acknowledge to my friends for giving me help when I need.*

*Finally, it is my family, I am forever grateful to my parents for their unconditional love and support. I also thank my brothers and sisters for their continuous encouragement during these times.*

## الإقرار

أنا الموقع أدناه، مقدم الرسالة التي تحمل العنوان:

# **The Relationship Between Corporate Governance and Financial Performance of Corporations Listed in Palestine Exchange: Mediating Effect of Disclosure Quality**

**العلاقة بين حوكمة الشركات والأداء المالي للشركات المساهمة العامة  
المدرجة في بورصة فلسطين: الدور الوسيط لجودة الإفصاح**

أقر بأن ما اشتملت عليه هذه الرسالة إنما هو نتاج جهدي الخاص، باستثناء ما تمت الإشارة إليه حيث ما أن هذه الرسالة كاملة، أو أي جزء منها لم يقدم من قبل لنيل أي درجة أو لقب علمي أو بحث لدى أي مؤسسة تعليمية أو بحثية أخرى.

## **Declaration**

The work provided in this thesis, unless otherwise referenced, is the researcher's own work, and has not been submitted elsewhere for any other degree or qualification.

**Student's name:**

**اسم الطالب:**

**Signature:**

**التوقيع:**

**Date:**

**التاريخ:**

## List of Abbreviations

ACS	Audit Committee Size
ADF	Augmented Dickey Fuller
BC	Board Compensations
BO	Board Ownership
BOS	Board Size
DQ	Disclosure Quality
EBXT	Earnings before Extraordinary Items
FMV	Firm Market Value
GMM	Generalized Method of Moment
LQ	Liquidity ratio
MENA	Middle East North Africa
NI	Net Income
NOM	Number of Board Meetings
OCF	Operating Cash Flows
PEX	Palestine Exchange
PPE	Property, Plant and Equipment
RD	Role Duality
REC	Receivables
ROA	Return on Assets
ROE	Return on Equity
RV	Revenues
TAAC	Total Accruals

## Table of Contents

No.	Content	Page
	Dedication	iii
	Acknowledgments	iv
	Declaration	v
	List of Abbreviations	vi
	Table of Contents	vii
	List of Tables	ix
	Abstract	xi
	<b>Chapter One: Introduction</b>	<b>1</b>
1.1	Introduction	2
1.2	Problem Statement	5
1.3	Research Questions	7
1.4	Objectives of the study	10
1.5	Contribution of the Study	10
	<b>Chapter Two: Literature Review</b>	<b>12</b>
2.1	Introduction	13
2.2	Definitions of corporate governance	13
2.3	Theoretical Perspective	14
2.4	Link between corporate governance mechanisms and firm performance	19
2.5	The relationship between corporate governance and disclosure quality	30
2.6	The relationship between disclosure quality and firm performance.	35
2.7	Research Hypotheses	39
2.7.1	Introduction	39
2.7.2	Group A: The hypotheses between corporate governance and disclosure quality	39
2.7.3	Group B: The hypotheses between disclosure quality and firm performance	40
2.7.4	Group C: The hypotheses between corporate governance and firm performance	41
2.8	Research Framework	46
	<b>Chapter Three: Research Methodology</b>	<b>48</b>
3.1	Introduction	49
3.2	Study population and sample	49
3.3	Data of the study	49
3.4	Variables Definition	51
3.4.1	Independent variables	51

<b>No.</b>	<b>Content</b>	<b>Page</b>
3.4.2	Mediator variable	53
3.4.3	Dependent variables	55
3.5	Statistical methods used to analysis data	56
3.6	Research models	59
	<b>Chapter Four: Results and Discussion</b>	<b>62</b>
4.1	Introduction	63
4.2	Descriptive statistics of variables	63
4.3	Pearson Correlation Matrix	67
4.4	Unit root test	77
4.5	Hypotheses Test	78
4.5.1	Group (A) Hypotheses: The relationship between corporate governance mechanisms and disclosure quality.	79
4.5.2	Group (B) Hypotheses: The relationship between disclosure quality and firm performance.	83
4.5.3	Group (C) Hypotheses: The relationship between corporate governance mechanisms and firm performance	89
	<b>Chapter Five: Summary and Conclusions</b>	<b>106</b>
5.1	Introduction	107
5.2	Theses review	108
5.3	Corporate governance mechanisms	109
5.4	Implication of the study	111
5.5	Limitation of the study	112
5.6	Conclusion	113
5.7	Recommendations for future research	114
	<b>References</b>	<b>116</b>
	<b>Appendix</b>	<b>138</b>
	الملخص	ب

### List of Tables

No.	Table	Page
<b>Table (1)</b>	Results of descriptive statistics of variables study	66
<b>Table (2)</b>	Pearson correlation matrix between corporate governance and disclosure quality	68
<b>Table (3)</b>	Pearson correlation matrix between disclosure quality and firm performance	70
<b>Table (4)</b>	Pearson correlation matrix between corporate governance and ROA	71
<b>Table (5)</b>	Pearson correlation matrix between corporate governance and ROE	73
<b>Table (6)</b>	Pearson correlation matrix between corporate governance and revenues (RV)	74
<b>Table (7)</b>	Pearson correlation matrix between corporate governance and net income (NI)	75
<b>Table (8)</b>	Pearson correlation matrix between corporate governance and liquidity ratio(LQ)	76
<b>Table (9)</b>	Pearson correlation matrix between corporate governance and Tobin's Q (TQ)	77
<b>Table (10)</b>	Results of Augmented Dickey-Fuller test for Unit root	78
<b>Table (11)</b>	Results of relationship between corporate governance mechanisms and disclosure quality generalized method of moment (GMM)	82
<b>Table (12)</b>	Results of (GMM) to measure the relationship between disclosure quality and ROA	84
<b>Table (13)</b>	Results of (GMM) to measure the relationship between disclosure quality and ROE	85
<b>Table (14)</b>	Results of (GMM) to measure the relationship between disclosure quality and Tobin's Q	86
<b>Table (15)</b>	Results of (GMM) to measure the relationship between disclosure quality and firms revenues (RV)	87
<b>Table (16)</b>	Results of (GMM) to measure the relationship between disclosure quality and firms net income (NI)	88
<b>Table (17)</b>	Results of (GMM) to measure the relationship between disclosure quality and firms liquidity ratio (LQ)	89

<b>No.</b>	<b>Table</b>	<b>Page</b>
<b>Table (18)</b>	Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and ROA	91
<b>Table (19)</b>	Stepwise Regression Analysis Coefficient <sup>a</sup>	92
<b>Table (20)</b>	Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and ROE	94
<b>Table (21)</b>	Stepwise Regression Analysis Coefficient <sup>b</sup>	94
<b>Table (22)</b>	Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and firms revenues	96
<b>Table (23)</b>	Stepwise Regression Analysis Coefficient <sup>c</sup>	97
<b>Table (24)</b>	Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and net income (NI)	99
<b>Table (25)</b>	Stepwise Regression Analysis Coefficient <sup>d</sup>	100
<b>Table (26)</b>	Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and liquidity ratio (LQ)	102
<b>Table (27)</b>	Stepwise Regression Analysis Coefficient <sup>e</sup>	103
<b>Table (28)</b>	Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and Tobin's Q (TQ)	105
<b>Table (29)</b>	Stepwise Regression Analysis Coefficient <sup>f</sup>	105

**The Relationship Between Corporate Governance and Financial Performance of Corporations Listed in Palestine Exchange: Mediating Effect of Disclosure Quality**

**By**

**Fawzi Sharif Hussein Hussein Ali**

**Supervised by**

**Dr. Muath Asmar**

**Dr. Muiz Abu Alia**

**Abstract**

Corporate governance has gained more attention, as investors search for maximization of returns and wealth. In most countries, private sectors play an important role in strengthening economies. Corporate governance has a significant relationship with disclosure quality. Disclosure quality is important as it enhances market efficiency and attracts investments for the firms, which will lead to better firms' performance. The objective of this study is to examine the impact of corporate governance mechanisms on corporate financial performance through the mediating effect of disclosure quality.

Corporate governance mechanisms used in this study include board size, board ownership, board compensations, number of board meetings, role duality and audit committee size. Firm performance was measured using several indicators, such as, return on assets, return on equity, net income, revenues, Tobin's Q and liquidity. The mediator variable is disclosure quality, which was proxied by discrimination accruals.

The researcher collected data for the companies listed in Palestine Exchange from 2005 to 2016 (49 company with 295 observation). The

GMM method was used to investigate the relationship between these variables. The study observed that 1) board size, 2) board ownership and 3) separation in leadership structure affect disclosure quality positively. However, 1) board compensations and 2) audit committee size have a negative impacts on disclosure quality. It was also found that disclosure quality has a positive impact on firm market value, net income and liquidity, while a negative impact on return on assets, return on equity and revenues. Lastly, the study found a contradicting influence between corporate governance mechanisms and firm's financial performance.

# **Chapter One**

## **Introduction**

# **Chapter One**

## **Introduction**

### **1.1 Introduction**

Corporate governance is the set of process, policies, laws, and institutions affecting the way a corporation is managed or controlled. Corporate governance consists of long-term management and monitoring of a company in accordance with the rules of responsibility and transparency. The concept of corporate governance assumes that there is a conflict of interest between shareholders and corporate managers. The objective of shareholders is to maximize return and their wealth while the managers aim is to have power and prestige in running large powerful corporation (2010).

The need for corporate governance emerged from the probable conflicts of interest between those who manage the firm and those who own it. According to Berle and Means (1932, p. 11), the separation between ownership and control leads to the conflict of interest between shareholders (owners) and managers (controllers). Ducassy and Guyo (2016) add that asymmetric information problems and imperfect contractual relations exist between the two parties. For example, managers may adopt sub-optimal financial and investment strategies and spend in luxury projects rather than in value maximizing projects. The consequences of these deviations are often related to agency costs, which represents the

costs of structuring, bonding and monitoring the contract between the principal and the agent.

There are many empirical studies (Darko, Aribi, & Uzonwanne, 2016) provide evidence indicating that firm performance and the corporate financial decisions are affected by agency conflicts between principals and agents. Powell and Baker (2010) argued that when the interests of owners and controllers are not taken care of due to the lack of strong corporate governance mechanisms, managers tend to prioritize lower than optimal leverage, hold large amount of cash and pay lower dividends. Several elements of corporate governance rules are recommended to carry out the mechanisms of corporate governance.

The Palestine Exchange was established in 1996 as a private share holding company to provide a market for trading securities and financial instruments. Its first session was held in February 1997 as a fully automated and electronic stock market operating under the supervision of the Palestinian Capital Market Authority. In 2010, it was restructured into a public shareholding company in conformity with good governance and transparency rules. In Palestine the “Corporate Governance National Committee” produced the “Code of Public Shareholding Corporate Governance in Palestine” in 2009. This code was made to be a guide on how companies shall run their businesses in order to achieve their goals of improving efficiency and achieving profit with sustainable growth. These could not be achieved correctly without establishing the rules of good

arrangement and transparency in accordance with the experience of international firms. Accordingly, the reputation of the companies would be enhanced and enhancement of firm's reputation and increase in faith and confidence for its shareholders and investors.

All companies listed on the PEX are required to prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS). The main purpose of IFRS or any other financial reporting framework is to provide reliable and relevant information for the users of the financial statements including relevant disclosures. Disclosures are essential for management to communicate the performance and governance of the firm to the outside world, *i.e.* investors and other stakeholders. The quality of accounting information disclosure is important to the related parties to obtain accurate and meaningful information that is useful in decision making (Gois, 2008). This study aims to investigate how corporate governance affects the financial performance for the firms listed in Palestine Exchange (PEX), in the light of disclosure quality as a mediator variable. For this aim, the researcher collected data from the annual reports for these firms from 2005 to 2016.

The rest of this introductory chapter is organized as follows: Section 1.2 discusses research problem. Section 1.3 presents the research questions. Section 1.4 explains the objectives of the study and section 1.5 discusses the contribution of the study.

## 1.2 Problem Statement

The usefulness of accounting information for decision makers depends on the availability of sufficient and complete information including related disclosures. Firm's profitability is the main purpose of all business ventures. Without profitability, these economic entities will not be able to survive in the long run. Investors are interested in firm's profits to receive dividends or to maximize their wealth. On the other hand, creditors and stakeholders are interested in firm's performance to evaluate whether the firms are able to pay their liabilities as they become due (Core, Guay, & Rusticus, 2006). Accordingly, disclosure quality is an important issue for related parties to ensure that the financial reports reflect the firm's reality and reduce the asymmetry of information (Brown & Hillegeist, 2007).

Palestine Exchange seeks to create investments opportunities, attract investments, ensure an efficient and transparent market for trading securities in order to 1) protect investors and save their interests and 2) ensure fair treatment between investors as a whole (Hamad, 2013).

In Palestine several studies addressed firm's profitability due to its importance (e.g., Daraghma, 2013; Hamad, 2013; Mouamer, 2011). Corporate governance is the most prominent variable that affects disclosure quality and firms performance. Corporate governance plays an important role in the economies of developed and developing countries. This role take place through protecting investors and ensuring fair treatment between

stockholders, attracting foreign investments via effective corporate governance mechanisms, enhancing the confidence in the financial markets, and also increasing the confidence in the financial reports and corporate disclosures (Defond & Hung, 2004). Due to this, corporate governance has been investigated in several countries around the world. Several scholars (*e.g.*, Marn & Romuald, 2012; Mustapa & GHazali, 2015) stated that corporate governance practices is weak in developing countries and they assumed that better firm performance may be achieved by better governance mechanisms. In addition, there is a limited research on corporate governance in the context of emerging economies. To date, there is a dearth of studies on corporate governance practices in Palestine (Kutum, 2015). Thus this study aims to fulfill this gap.

Even though, several studies have investigated the impact of corporate governance on firm performance, the results have been inconclusive. For example, many studies as (Aggarwal, 2013; Haniffa & Hudaib, 2006; Pathan, Skully, & Wickramanayaka, 2004; Zagorche & Gao, 2015) found that corporate governance has a positive influence on firm performance. Whereas other studies (*e.g.*, Abidin, 2009; Amba, 2013; Coleman, 2007; Salim, Arjomandi, & Seufert, 2014) found that corporate governance has a negative impact on firm performance. There were other studies (*e.g.*, Marn & Romuald, 2012; Vo & Phan, 2013; Zabri, Ahmad, & Wah, 2015) that found no relationship between corporate governance and firm performance.

Due to the inconclusive results, it would be essential to introduce a mediator variable. One possible variable which may play a mediating effect between corporate governance and firm performance is the disclosure quality. Several studies examined the impact of corporate governance on disclosure quality (e.g., Htay, Said, & Salman, 2013; Utama, 2003) and found that corporate governance mechanisms have positive impact on firm performance. Other studies investigated the impact of disclosure quality on firm performance (e.g., Chi, 2009; Cohen & Krishnamoorthy, 2008). And also several dimintions of corporate governance mechanisms will be used in this study as board size, board ownership, board compensations, CEO duality, frequency of board meetings and audit committee size.

Even though, there is no mandatory rules for corporate governance mechanisms for the companies listed in Palestine Exchange, the Palestinian Capital Market Authority has adopted the principles issued by the Organization for Economic Cooperation and Development OECD since 2009 (PCMA, 2009). Based on the aforementioned concerns, the main objective of this study is to investigate the mediating effect of disclosure quality, between corporate governance mechanisms and firm performance for the companies listed in Palestine Exchange.

### **1.3 Research Questions**

Based on the above discussion in the problem statement this study introduces three main research questions as the following:-

The first main question:

**What is the effect of corporate governance mechanisms on disclosure quality?**

The sub-questions are:

- What is the effect of board size on disclosure quality?
- What is the effect of the frequency of board meetings on disclosure quality?
- What is the effect of CEO duality on disclosure quality?
- What is the effect of board ownership on disclosure quality?
- What is the effect of audit committee size on disclosure quality?
- What is the effect of board compensations on disclosure quality?

The second main question is:

**What is the effect of disclosure quality on firm performance?**

The sub- questions are:

- What is the effect of disclosure quality on return on assets?
- What is the effect of disclosure quality on return on equity?
- What is the effect of disclosure quality on net income?

- What is the effect of disclosure quality on revenues?
- What is the effect of disclosure quality on firm market value?
- What is the effect of disclosure quality on liquidity ratio?

The final main question:

**What is the effect of corporate governance mechanisms on firm performance?**

The sub-questions are:

- What is the effect of corporate governance mechanisms on return on assets?
- What is the effect of the corporate governance mechanisms on return on equity?
- What is the effect of corporate governance mechanisms on firm's revenues?
- What is the effect of corporate governance mechanisms on firm's net income?
- What is the effect of corporate governance mechanisms on firm's liquidity?
- What is the effect of corporate governance mechanisms on firms firm market value?

#### **1.4 Objectives of the study**

The aims of corporate governance mechanisms in Palestine include: enhancing investor protection, making strong the supervisory role of the board of directors in public listed companies, ensuring there is higher financial disclosure quality and securing the independence of the board of directors when making decisions. Corporate governance is needed to reduce agency risk due to the risk that managers pursue their own interests at the expense of the shareholders.

The study aims to investigate the impact of corporate governance mechanisms on firm's performance through the mediating effect of disclosure quality. More specifically the study looks at whether corporate governance mechanisms have an effect on performance based on: board size, the frequency of board meetings CEO duality, board ownership, audit committee size and board compensations through using the mediator variable disclosure quality.

Following on from the aims of the study its main objective is to advance the international corporate governance research agenda by describing the impact of corporate governance mechanisms on the companies listed in Palestine Exchange.

#### **1.5 Contribution of the Study**

Considering the insufficiency of studies address the relationship between corporate governance and firm performance in Palestine (*e.g.*,

Harbi, 2007; Kutum, 2015), this study provides significant contribution to the existing corporate governance literature particularly in Palestine. Specifically, the study explains the relationship between corporate governance and firm performance by using disclosure quality as a mediator variable and using GMM analysis for a panel data from 2005 to 2016.

The results of this study are of considerable importance for the regulators and other related parties in Palestine and other developing countries which have similar settings. Furthermore, firm's managers in these countries will benefit from these results; they would be reflected in their future strategies and policies with purposes of 1) protecting shareholders and stakeholders interests, 2) strictly reducing the opportunistic behaviors of the managers, and 3) attracting the investments, and maximizing the profits of the firms. Furthermore, the findings of this study would encourage firms to adopt efficient corporate governance guidance.

The next Chapter discusses literature review, hypotheses developed and research framework. Chapter three discusses research methodology, including source of data, variables of the study, the analytical procedure and research models. Chapter four discusses the results of the study and chapter five discusses the summary and conclusion of the study.

**Chapter Two**  
**Literature Review**

## **Chapter Two**

### **Literature Review**

#### **2.1 Introduction**

The aim of this chapter is to provide a complete and a clear view of variables of the studies they are addressed in the accounting literature. It is structured in a form that reflects the study objectives. This part includes eight sections. The second section provides the definitions for corporate governance. The third section discusses the theoretical background of corporate governance from different views including; agency theory, stakeholder theory and stewardship theory. The fourth section discusses the link between corporate governance mechanisms and firm performance. The fifth section discusses the relationship between corporate governance and disclosure quality. The sixth section discusses the relationship between disclosure quality and firm performance. The seventh section discusses the research hypotheses. The last section explains the research framework.

#### **2.2 Definitions of corporate governance**

There is an increasing emphasis on corporate governance in both practice and academic research. This is due to the collapse of many international companies, such as, WorldCom, Enron and Arthur Andersen. According to Berle and Means (1932), the objectives of managers cannot perfectly match with owners'. This is due to managerial self-interest and information asymmetric in corporations. Therefore, the main problem of

corporate governance is the conflict of interest between managers and shareholders (Jensen & Murphay, 1990).

Blair (1996, p. 3) defined corporate governance as follow:

*“The whole set of legal, cultural and institutional arrangements that determine what a publicly-traded corporation can do, who control them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated.”*

The Organization for Economic Cooperation and Development OECD (2004, p.11) defined corporate governance from systemic view which become widely accepted definition as follow

*“Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholder, corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring.”*

### **2.3 Theoretical Perspective**

Corporate governance is central to the management and operation of modern companies, and there is an ongoing debate about which theoretical

models are appropriate (Letza, Sun, & Kirkbride, 2004). However, a lack of consensus in the definition of corporate governance has resulted in researchers from different backgrounds (finance, economics, sociology and psychology) proposing different theoretical views that are all aimed at understanding the complex nature of the concept (Lawal, 2012). A number of diverse fundamental theories underline corporate governance, including the original agency theory, stewardship theory and stakeholder theory (Abdullah & Valentine, 2009). The main theories that have affected the development of corporate governance and been adopted in the current study will be discussed as following:

### **Agency theory**

Agency theory explains the relationship between agent (manager) and the principal (shareholders). Shareholders authorize managers to manage their business. This theory debates that when both parties are expected to maximize their utility, the agent may take opportunistic behavior at the expense of the principals' interest.

Agency relationships include costs to the principals. These costs were defined as the sum of monitoring, bonding and the residual loss. Monitoring expenditures are defined as the expenditures by the principal to control the agent behavior. Bonding costs are the costs to ensure that agents do not take actions to hurt the principal's interest. Residual losses are the extent to which returns to the owners fall below what they should be (Hill

& Jones, 1992). To reduce the conflict of interest, Jensen and Meckling (1976), suggested that managers should own shares of the firm to match their interests to be in line with shareholders.

The governance mechanisms were designed to protect shareholders' interests, minimize agency costs and ensure that agent–principal interests are aligned. For these purposes, two corporate governance mechanisms were developed; 1) board of directors and 2) compensation schemes, to ensure the alignment of interest between both agent and principal.

Fama (1980) considered board as a low-cost mechanism of corporate governance compared to other methods, such as, takeover. Basically he focused on issues, such as, board size and separation between CEO and chairman. Board compensation concentrates on the degree to which managers are compensated in ways that align with the interests of shareholders (Amba, 2013; Coleman, 2007; Haniffa & Hudaib, 2006; Vo & Phan, 2013).

### **Stakeholder theory**

The philosophical predecessors of stakeholder theory study the concepts of cooperative movement, reciprocity and the intellectual foundations which describe company as a set of human resources and relationships (Clarke, 1984). Freeman (1984) asserted that “*any group of individual can affect, or is affected by, the achievement of a corporation's purpose. Stakeholders include employees, customers, suppliers,*

*stockholders, banks, environmentalists, government and other groups who can help or hurt corporation”.*

Clarkson (1995) classified stakeholders into 1) primary and 2) secondary stakeholders based on comparable interests, claims and rights. The primary group includes shareholders, investors, employees, customers, suppliers and public stakeholders. This group is necessary for the corporation to survive as going concern. The secondary group is defined as a party that affects or is affected by the corporation. According to him, *“the firm as a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the companies, activities, the purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services”.*

Donaldson (1995) argued that the stakeholders theory includes three portions that attempt to illustrate and guide the structure and operations of the corporation alternative methods, types of evidence and appraisal criteria. The descriptive aspect is used to describe specific characteristics and behavior of the corporation. The instrumental aspect is applied to determine the connections between stakeholders, managers and the achievement of traditional corporate objectives. The normative aspect emphasizes on the explanation of the function of the corporations involving the determination of moral guidelines for the operation and management of the corporation.

## **Stewardship theory**

Whereas agency theory supposes principals and agents have conflict of interest (*i.e.* agents are basically self- served and self- centered), stewardship theory takes an opposite view. According to the theory, agents are essentially trusted and good stewards for resources contingent to them (Davis, Schoorman, & Donaldson, 1998; Donaldson & Davis, 1994). Davis and Donaldson (1991) asserted that “*organizational role-holders are conceived as being motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses*”. The stewardship theory views directors and managers as stewards of the firm who are likely to maximize the shareholders’ wealth. They also mentioned that for the achievement of organizational success managers should given the autonomy based on trust. This reduces the monitoring and controlling costs for manager’s behaviors.

The stewardship theory assumes that directors are influenced by non-financial motivations, such as, the need for achievement and recognition, the intrinsic satisfaction of successful performance and respect for authority and work ethics. Daily et al (2003) believed that managers are interested to protect their reputation as expert decision makers. As such, managers run the firm in a manner that maximizes the firm performance including shareholders returns. On the other hand, Fama (1980) indicated that managers who are good stewards of the firm, are also effective in managing

their own business. Shleifer and Vishny (1997) supported Fama's view and deliberated that managers who bring high returns to investors establish good reputations that allow them to re-enter the markets for the future needs of the firm.

From the stewardship view, the eminent performance of the firm related to having a majority of insider directors because those directors have a better understanding of the business and also have better place than outside directors to make a superior decisions. Therefore, insider directors are preferable for their depth of knowledge, access to operational information and technical expertise. For example, CEO duality, the same person holding both chief executive and chairman is deemed to lead to better firm performance (L. Donaldson & Davis, 1994).

#### **2.4 Link between corporate governance mechanisms and firm performance**

There is a long debate on the relationship between corporate governance mechanisms and firm performance. Coleman (2007) investigated this relationship in four African countries, including Ghana, Nigeria, Kenya and South Africa. The researcher used both market and accounting performance measures (*i.e.* ROA and Topin's Q) to evaluate corporate performance. He used data for 103 listed firms in these countries covering the period from 1997 to 2001. The author found that large independent board size contributed positively towards the firm value, while

merging both positions of CEO and board chair had negative effect on corporate performance. And he also found that the size of audit committee and the recurrence of their meetings have a positive impact on corporate financial performance.

The relationship between corporate governance and firm performance was studied by Guo and Kumara (2012). They examined the impact of corporate governance on financial performance for the listed firms in Colombo Stock Exchange in Sri Lanka. The researchers collected data for 174 firms during the financial year 2010. They found a negative relation between non-executive directors and ROA. They also found that the relation between board size and Tobin's Q and non-executive directors and Tobin's Q are negatively significant. Haniffa and Hudaib (2006) examined the influence of corporate governance on firm performance for the Malaysian companies listed in Kuala Lumpur Stock Exchange from 1996 to 2001. The researchers investigated the impact of board size, top five substantial shareholdings, board composition, managerial ownership, multiple directorship and role duality on Tobin's Q and ROA. They found that board size is seen as less effective in supervising and monitoring performance and it could be costly because of the relatively larger board compensation's. The role duality seemed not to perform as well as other firms which were controlled by separate board leadership. Multiple directorship didn't add value to firm performance while, the concentrated ownership had positive impact on corporate performance.

The impact of corporate governance on firms' financial performance was studied by Amba (2013). He collected data for the firms listed in Bahrain bourse from 2010 to 2012. The researcher examined the influence of corporate governance measured by CEO duality, chairman of audit committee, proportion of non executive directors and concentration of ownership structure on firm performance measured as ROA. The researcher found that CEO duality and the proportion of non-executive directors had negative impact on firm's financial performance. While chair of audit committee and ownership concentration had a positive influence on firm performance.

The relationship between firm's ownership structure and its performance was studied by Ducassy and Guyo (2016). The researchers collected data covering the period from 2000 to 2009 for non-financial companies listed in NYSE and Euronext Paris Stock Exchange. They found that there is a positive significant relationship between the concentrations of capital in few shareholders. This allows for more concurrence of interests with the similar goals of maximizing the firm's value. Manzanque, Priego and Merino (2015) studied the impact of corporate governance on firms financial distress. The researchers collected data between 2007 and 2012 for Spanish listed companies. They investigated the impact of ownership concentration, institutional concentration, non-institutional concentration, board concentration and board size. The researchers found that board ownership and board size reduced the probability of financial distress,

while ownership concentration, institutional or non-institutional concentration had no impact on financial distress likelihood. Salim, Arjomandi and Seufert (2014) studied the influence of corporate governance on the performance of Australian banks from 1999 to 2013. They examined the impact of board size, ratio of non-executive directors to board size, number of board meetings, number of governance committee members and concentrated shareholdings on ROA and liquidity. The researchers found that, firstly, board size and the number of board meetings had positive significant impact on Australian bank's performance, secondly, non-executive directors and numbers of governance committee members were not significant, and, thirdly, concentrated share holdings had negative impact on banks' performance.

The relationship between corporate governance and firm's financial performance was studied by Akbar, Poletti-Hughes, El-Faitouri and Ahah (2016). The researchers investigated the influence of corporate governance represented by board size, board meetings, presence of audit committee, ownership concentration, and the number of non-executive directors. The researchers collected data from 1999 to 2009 for non-financial companies listed in London Stock Exchange. They found that board size and number of non-executive directors had negative significant influence on firms' performance measured by ROA and Tobin's Q. Other variables had positive impact on firms' performance. Zabri, Ahmad and Wah (2015) examined the impact of corporate governance mechanisms on firms

performance for top 100 companies listed in Kuala Lumpur Stock Exchange. The researchers collected data covering the period from 2008 to 2012. They investigated the impact of board size, board independence on ROA and ROE. They found that board size had negative impact on ROA. The relationship was not significant for ROE, whereas the board independence had no impact on firm's performance. Dwivedi and Jain (2005) examined the impact of board size, director's shareholding, institutional and foreign shareholding. The researcher used Tobin's Q as a measure of firm's performance. The researcher collected data for Indian listed companies from 1997 to 2001. The researchers concluded that board size had positive significant impact on firms' performance. Larger board improved the governance and reduced the agency costs resulting positive association with firms value. Foreign and institutional shareholding contributes positively towards firms performance, while director shareholding had negative impact on firm value.

The impact of corporate governance on stock return, firm value and performance was studied by Bauer, Gunster and Otten (2004). The researchers analyzed if good corporate governance command high stock return and enhance firms' value. The researchers collected data for European firms listed in Financial Times Stock Exchange 100 index from 2000 to 2001. They found significant differences between UK market and Eurozone markets. This was because Eurozone countries traditionally had poor governance standards and this was reflected in its firms performance.

Aggarwal (2013) studied the effect of corporate governance on corporate performance. The researcher wanted to investigate the impact of board size, board independence, role duality, directors experience, board meetings and external auditor. To achieve this, the researcher collected data for 20 non-financial Indian companies listed in NYSE from 2010 to 2012. They used ROA, ROE and profit before tax as proxies for financial performance. The researcher found a positive significant impact for governance and firm's performance. Firms with good governance tend to have good financial performance.

The effect of corporate governance mechanisms on firm financial performance in Islamic banks was studied by Haider, Khan and Iqbal (2015). The researchers discussed the impact of board size, number of board meetings and audit committee size on financial performance indications, such as, ROA, ROE and EPS. They collected data for Islamic banks in Pakistan covering the period from 2008 to 2012. The researchers found that board and audit committee size had positive impact on financial performance while, number of board meetings had negative impact on financial performance. Aljifri and Moustafa (2007) examined the impact of corporate governance practices on firm performance for UAE companies listed in Dubai Financial Market for 2004. The researchers concluded the governmental ownership, leverage ratio, payout dividends had a positive impact on financial performance, while institutional investors, board size and auditor type had no impact.

The influence of corporate governance on firm performance was studied by Abidin (2009). The researcher examined the impact of four board characteristics board composition, director's ownership, CEO duality and board size. Firm performance was measured using the value added and physical productive capacity was proxied by the value added intellectual coefficient VAIC. To achieve this purpose the researcher collected data randomly for 75 companies listed in Bursa Malaysia. The researcher found that board size and board composition had positive impact on firm performance, whereas the impact of director's ownership and CEO duality was negative (Abidin, 2009). Foroughi and Fooladi (2011) examined the impact of corporate ownership and firm performance. The researcher investigated the influence of ownership of majority shareholders on stock return for Iranian companies over the period from 2002 to 2004. The researcher found that ownership concentration had negative impact on firm performance. The impact of corporate governance and ownership concentration on firm performance was studied by Manuale, Vazquez and Valdes (2012). The researchers wanted to explain the effect of family concentration on firm performance. They studied the impact of number of shares owned by CEO and board compensation on Tobin's Q ratio. The researcher collected data for companies listed in Mexican Stock Exchange from 2005 to 2009. They found that family concentration and board compensation had positive impact on firm performance, while CEO ownership had negative impact.

The relationship between corporate governance and firm performance was studied by Vo and Phan (2013). The researchers investigated the impact of board size, percentage of female board members, CEO duality, education level of board members, independence directors, board compensation and board ownership on ROA. They collected data for non-financial firms listed in Ho Chi Minh City Stock Exchange in Vietnam for the period from 2006 to 2011. They concluded that the presence of female board members, CEO duality, working experience, and board compensation had positive impact on firm performance, whereas board size had negative relationship. In addition, the education level, board ownership and directors independence had no relationship with firm performance. Zagorche and Gao (2015) examined the relationship between corporate governance and performance of financial institutions in the US for the period between 2002 to 2009. The researchers investigated the impact of director's ownership, board independence, board committees on classified board. The researchers concluded that director's ownership and board independence had positive impact on firm performance. Whereas, board committees and classified board had the opposite influence.

Researchers examined the influence of ownership concentration, managerial ownership, CEO held by family member and CEO duality in Saudi Arabia. They found that all these variables had a positive impact on firm performance (Al-Ghamdi & Rhodes, 2015). The influence of institutional, foreign and family ownership was studied for Malaysian listed

companies for the period from 2000 to 2009. It was found that there was a positive relationship between these variables and firm performance (Musallam, 2015).

The relationship between corporate governance and firm performance was studied by Marn and Romuald (2012) for selected companies listed in Bursa Malaysia. The researchers investigated the impact of board size, board composition, audit committee, role duality, managerial and institutional ownership. They collected data covering the period from 2006 to 2010. They found that only board size and managerial ownership had a positive impact on firm performance (measured by earning per share), while other variables were not significant. The impact of corporate governance on firm performance for the companies listed in Kuala Lumpur Stock Exchange for the period from 1994 to 1996 was studied by Abdullah (2004). The researcher wanted to explore the influence of board independence and CEO duality on firms performance (measured by ROA, ROE and EPS). The researcher found that neither board independence nor leadership structure affected the Malaysian firm's performance for this period. Another study on the impact of corporate governance on firm's performance for the Malaysian listed companies was conducted by Ponnu (2008). The researcher collected data for the largest 100 listed non-financial companies and investigated the influence of two corporate governance parameters; 1) board structure and 2) CEO duality, on firm's performance measured by ROA and ROE. They found that there is

no significant relationship between corporate governance and firm performance.

Pathan, Skully and Wickramanayka (2004) studied the impact of board size and independent directors on bank performance. They collected data for Thai banks covering the period from 1999 to 2003 and found that board size had negative impact on banks performance, while independent directors had positive influence. Bhagat and Bloton (2011) studied the impact of Sarbanes Oxley Act on the relationship between corporate governance and firm performance. They considered five measures of corporate governance board independence, directors ownership, CEO duality, G index the compilation of anti- takeover provisions and E index the subset of G index. The researchers collected data for the largest 1500 US firms and found that board independence, CEO duality, G index and E index had a negative impact on firm's performance measured by ROA and Tobin's Q, while only director's ownership has positive influence on firm's performance. The relationship between corporate governance and firm profitability was studied by Joh (2003). The researcher collected data for listed Korean companies covering the period from 1993 to 1997. He concluded that low ownership concentration and high disparity between management and ownership right had negative relationship with firm's profitability. Kumar (2012) studied the relationship between corporate governance and firm performance in India. The researcher collected data for 157 nonfinancial companies for the year 2008. He found that

independent directors, gray directors (non executive and non independent), board size and role duality had positive impact on firms' profitability measured by Tobin's Q. Whereas, the number of non executive directors had negative impact on firm's performance.

Many empirical studies examined the impact of corporate governance on firm performance in Palestine. Kutum (2015) examined the impact of board independence, board meetings, board size, board experience, company size and company age on firm performance measured by ROA for the period from 2010- 2013. The researcher found that only company age has positive impact on firm performance. In contrast, board meetings had negative impact, while other variables had no relation with firm performance. Another study by Abdelkarim and Alawneh (2009) investigated the impact of ownership concentration on firm performance for selected listed companies for the period from 2003 to 2006. They found a negative relationship between ownership concentration and firms' performance. In addition, Dwaikat and Queiri (2014) examined the impact of ownership structure on firm performance for the period from 2008 to 2012. They found management ownership to have a positive impact on firm performance, while large shareholders had a negative impact.

As noted from the previous literature there is no inconclusive results for the impact of corporate governance mechanisms on firm performance and the following results were summarized. Haniffa and Hudaib (2006) found small board size is more efficient, while Colest, Daniel and Naveen

(2008) found board size have no relationship with firm performance. For the frequency of board meeting Vafeas (1999) concluded there is a negative relation with firm performance, whereas Conger, Finegold and Lawler (1998) suggested board meetings enhance firm performance. According to the CEO duality Sanda, Mikailu and Garaba (2003) resulted a positive relation with firm performance, while Brickley, Coles and Jerrell (1997) found there is no relation between CEO duality and firm performance.

And also for the board ownership Seifert, Gonenc and Wright (2005) argued there is positive relationship between board ownership and firm performance, while Mura (2006) resulted a negative relation between them. Regarding to the audit committee size Coleman (2007) found a positive relationship with firm performance, on the other hand, Marn and Romuald (2012) found negative relationship between them. And finally according to the board compensation Vo and Phan (2013) concluded a positive relationship with firm performance, whereas Brick, Palmon and Wald (2005) found a negative impact for the board compensations on firm performance.

## **2.5 The relationship between corporate governance and disclosure quality**

Many empirical studies investigated the relationship between corporate governance and the quality of financial reports in several markets. In a study conducted in Australian Stock Exchange, Beekes

(2006) found that better governed companies make more informative disclosure. The same conclusion was achieved by Ali (2006) and Gois (2008). According to the findings of Ali (2006), the independence of directors of companies listed in the French Stock Market leads to more disclosure quality. However, the ownership concentration and family firms have poor disclosure quality. Gois (2008) found that the board size of the companies in the Portuguese Stock Exchange had a positive impact on the quality of financial disclosure.

In the same line, Klai and Omri (2011) studied the relationship between corporate governance and the quality of financial reports of the companies listed in Tunis Stock Exchange. They concluded that block ownership reduced the quality of financial reports. Similar relationship was studied by Htay, Said and Salman (2013) for the Malaysian public listed banks. They found that corporate governance has better influence on disclosure quality due to the separation in board leadership structure, higher portion of independent directors, higher board size and low ownership concentration. Furthermore, Torchia and Calabro (2016) supported the importance of disclosure quality to reduce information asymmetries, increase transparency and reduce the cost of capital. The study found that while board independence had a positive effect on transparency and disclosure quality, board size and CEO duality had a negative effect.

Information is the oil that lubricates the economic engine. As such, the information included within the financial report must be well prepared

and contain high level of accuracy. Attar (2016) investigated the impact of corporate governance level on disclosure quality for the commercial banks listed in Amman Stock Exchange, and found that corporate governance practices had a positive impact on firm disclosure quality. Information asymmetry arises when one of two parties has more information than the other. The high level of disclosure quality is useful for the firm because it reduces the cost of capital. Soheilyfar (2014) investigated the influence of corporate governance mechanisms on firms disclosure quality for the firms listed in Tehran Stock Exchange, and discovered a significant relationship between corporate governance and disclosure quality.

In previous studies, several corporate governance mechanisms were used to examine the relationship between corporate governance and disclosure quality. Board size is one of these mechanisms, as discussed by Florackis and Ozkan (2004). Boards with more than seven or eight members are unlikely to be effective. The smaller board size is the better the communication and coordination are (Yoshikawa & Phan, 2003). This will result in better disclosure quality. This is supported Byard, Li and Weintrop (2006). In contrast, Lakhali (2005) did not support such theoretical expectation.

Another mechanism of corporate governance is role duality. CEO and board chairperson should not be the same person in order to create pressure on the top management (led by CEO) to have better disclosure quality in the annual report. If not, the same person will monitor his own

performance and consequently, the effectiveness of board would be decreased. Hence, it can be asserted that better disclosure quality can be achieved by having separate board leadership structure (Htay *et al.*, 2013).

Ho and Wong (2001), Byard *et al* (2006) and Huafang and Jianguo (2007) indicated that a positive relationship existed between separate leadership structure and information disclosure, which were in line with the theoretical expectation. Notwithstanding, Hashim and Devi (2008) argued that separate leadership structure is not associated with disclosure quality.

The third mechanism of corporate governance that is used in the accounting literature is the audit committee size. Previous studies provided mixed evidence about the impact of audit committee size on disclosure quality. Xie, Davidson and DaDalt (2003) and Abbott, Parker and Peters (2004) found no relationship between the audit committee size and financial reporting quality. On the other hand, Yang and Krishnan (2005) found that audit committee size influence disclosure quality negatively. Whereas, Pucheta-Martinez and Fuentes (2007) concluded that audit committee size positively influenced the quality of financial reporting in the Spanish context. This implies that a certain minimum number of audit committee members may be relevant to ensure the quality of financial reporting.

Board ownership is widely used in the literature as one of the corporate governance mechanisms. According to Kim and Lee (2003),

board ownership and block shareholders may benefit from their voting power to select their trusted persons to be appointed as the CEO or board members. With regard to the block shareholders, additional information disclosure might not be necessary because they can assess the inside information through their proxies, i.e. their selected CEO and board members. They might even want to harbor some of the information to protect their interests. Therefore, a negative relationship between ownership and disclosure is expected. This is supported by Lakhali (2005). On the other hand, Chau and Gray (2002), Luo, Courtenay, and Hossain (2006) and Huafang and Jianguo (2007) found that ownership concentration had a positive influence on disclosure quality.

Board compensation is an important mechanism of corporate governance. It is argued that compensations motivate board members to act in the best interest of shareholders.

There are several studies that examined the impact of board compensations on disclosure quality. Alhazaimah, Palaniappan and Almsafir (2014) and Chiang and He (2010), found a positive association between board compensations and disclosure quality.

The last mechanism of corporate governance that is frequently used by the researchers is the frequency of board meetings. Academic literature provides empirical evidence on the impact of the frequency of board meetings on the disclosure quality. Laksmana (2008) and Karamanou and

Vafeas (2005) found that the frequency of board meetings was positively related to the disclosure quality.

## **2.6 The relationship between disclosure quality and firm performance.**

Accounting literature comprises of several studies that asserted the importance of the availability of high quality financial reporting (*i.e.* high quality disclosure) on one hand, and the significant role of corporate governance mechanisms in enhancing quality. In their study in Turkey, Aksu and Kosedage (2005) found that the disclosure quality and transparency had a positive impact on firms performance.

Several studies (Abadi & Janani, 2013; Pucheta-Martinez & Fuentes, 2007; Salehi & Shirazi, 2016) indicated that the aim of financial reporting is to provide reliable information to different users, whether they are internal or external, on time and effectively. As such, managers of companies should be careful about the quality of financial information as it is one of the main tools in communicating information to the current and potential investors. Moreover, the nature of disclosure is affected by the quality of information presented. Abadi and Janani (2013) explained that there are many definitions of disclosure. While all of them showed that the disclosure term is a wide concept, disclosure aims to provide information. In accounting field the quality of accounting information strive for reliability and accuracy of the disclosure. Financial reporting and

disclosure quality aim to provide information about the company's activities.

Muhamad and Shahimi (2009) argued that the presence of a strong disclosure regime promoted real transparency. According to the study, disclosure is one of the main tools used to oversee the companies in the capital market. Disclosure quality is considered as the main issue to facilitate shareholders to exercise their rights and make decisions. Disclosure is one of the most important instruments in protecting investors, attracting capital and maintaining confidence in the capital markets. The weakness of disclosure and non-transparent practices lead to the loss of the integrity of the market. This entails huge costs not only for the company and its shareholders, but also for the economy as a whole. As such, shareholders and potential investors require accurate, relevant and comparable information to assist them in making informed decisions. As a result, the lack of clear and adequate information hinder the ability of the markets to work efficiently and increases the cost of capital (Fung, 2014). The relationship between accounting information and the cost of capital and firm performance has manifested to become an essential and fundamental issue in the accounting literature. Botosan (2006) argued that information reduces cost of capital by reducing the estimation risk of investors. Lambert, Leuz, and Verrecchia (2005) discussed that the level of disclosure depended on the company. Management had to choose disclosure types that is suitable for their needs. Companies can either

decide to only conform with the mandatory requirements of disclosure, or they can decide to disclose extra information.

Beyer, Cohen, Lys and Welther (2010) argued that the reasons for mandatory disclosure are not very apparent. However, it is possible to point towards four primary reasons, such as, financial variables, externalities, agency costs and economies of scale. In terms of financial variables, a firm may disclose information relating to other companies along with its own financial. As such information can be treated as irrelevant for the firm, the competing company will try to limit access to this information. In this case, forced mandatory regulations would improve social well-being. Concerning real externalities, companies' disclosure may affect the strategic decisions taken by its competitors. Having access to information released by other companies can improve decision-making process which, in turn, improves social welfare. In addition, in companies with powerful management and weak investors managers can take advantage of its shareholders by concealing useful information. Thus, agency costs are unavoidable.

Disclosure of financial statements quality is an important component of corporate governance framework, it is considered as an essential indicator of its quality. High disclosure quality is vital to protect the rights of the shareholders and other outsiders who do not have firsthand knowledge about the firm's performance (Patel, Balic, & Bwakira, 2002).

Corporate management is required to provide the users of financial statements with high-quality useful information.

Disclosure quality and policies that reduce asymmetry of information increase the liquidity for the firms security, increase the current stock price and reduce the cost of capital. Mohammadi (2016) examined the relationship between disclosure quality and firm performance. The researcher used accounting and market indicators for firms performance. In his study for chemical firms listed in Tehran Stock Exchange, he found a positive impact of disclosure quality on firm performance (measured by return on asset, return on equity and Tobin's Q).

Cheng, Collins and Huang (2008) discussed that higher disclosure quality reduces the firms market beta. This led to the reduction of abnormal returns and enhances the confidence in the financial markets. Hope, Jin and Kang (2006) documented that disclosure quality enhanced investors protection and provided better access to the capital market and also increased firms profitability. Lang and Lundholm (1996) discussed that high disclosure quality can lead to high market efficiency and more efficient investment decisions. They found disclosure to be associated with more accurate analysts' forecasts. Chi (2009) examined the impact of corporate disclosure quality for 880 listed company in Taiwan, the researcher concluded that there was a positive relationship between disclosure quality and firms' performance. Also, Chen, Hope, Li and Wang

(2011) argued that disclosure quality positively affects firms investment efficiency in emerging markets.

## **2.7 Research Hypotheses**

### **2.7.1 Introduction**

This study intends to explain the mediating effect between corporate governance and firm performance. The researcher developed three groups of hypotheses: 1) group A for the relation between corporate governance and disclosure quality, 2) group B for the relation between disclosure quality and firm performance and 3) group C for the relation between corporate governance and firm performance.

### **2.7.2 Group A: The hypotheses between corporate governance and disclosure quality**

According to agency theory, good corporate governance mechanisms are essential for more transparent information disclosures about the firm. This is important especially in the annual reports which are the main sources of information provided by management to investors and stakeholders. Moreover, corporate governance plays an important role to ensure the stability of the economy in the country (Htay et al., 2013). It is also argued by Utama (2003) that disclosure is complimentary because higher disclosure reduces information asymmetry. Based on the studies above, the following research hypotheses were developed for the relationship between corporate governance and disclosure quality:-

H<sub>A1</sub>: There is a relationship between board size and disclosure quality.

H<sub>A2</sub>: There is a relationship between the frequency of board meetings and disclosure quality.

H<sub>A3</sub>: There is a relationship between CEO duality and disclosure quality.

H<sub>A4</sub>: There is a relationship between board ownership and disclosure quality.

H<sub>A5</sub>: There is a relationship between audit committee size and disclosure quality.

H<sub>A6</sub>: There is a relationship between board compensation and disclosure quality.

### **2.7.3 Group B: The hypotheses between disclosure quality and firm performance**

The financial statements are the manner which management presents the performance of the company. According to Cohen and Krishnamoorthy (2008), the quality of disclosure for these statements reduce the asymmetry of information which was due to the agency problem. The most prominent consequence of agency problem is that on party has more information than the others. Disclosure quality plays an important role to increase the confidence in the financial markets, reduce the cost of capital, encourage the investors to invest in firms with high disclosure quality and increase the stock price and enhance the firm performance as argued by Chi (2009).

From the previous debate the following research hypotheses were developed:-

H<sub>B1</sub>: There is a relationship between disclosure quality and return on assets (ROA).

H<sub>B2</sub>: There is a relationship between disclosure quality and return on equity (ROE).

H<sub>B3</sub>: There is a relationship between disclosure quality and firm market value.

H<sub>B4</sub>: There is a relationship between disclosure quality and firms revenues.

H<sub>B5</sub>: There is a relationship between disclosure quality and firms net income.

H<sub>B6</sub>: There is a relationship between disclosure quality and firms liquidity ratio.

#### **2.7.4 Group C: The hypotheses between corporate governance and firm performance**

##### **The board size**

There are many researches that assert the importance of board directors as one of the mechanisms of corporate governance. Board directors appointed members jointly oversee, control and supervise the managers (Perry & Shivdasani, 2005). With regard to the effectiveness of

the board size, there is a long debate on how board size can affect the firm performance.

From the previous literature the following findings represent the effect of board size on firm performance. Haniffa and Hudaib (2006) argued that small board size is more efficient and can easier manage. However, large board size is not efficient due to cultural differences and lack of board members' ownership. Yermak (1996) concluded that smaller board size correlated positively with firms value. And also Cheng (2008) found that firms with large board size had negative impact on its performance, While Vafeas (1999) discovered a negative relationship between board size on firm performance. Despite that, Coles, Daniel and Naveen (2008) found that board size had no significant impact on firm performance.

### **Frequency of board meetings**

There are two point views for the frequency of board meetings. The first view states that higher meeting frequency increases firm performance. Conger, Finegold and Lawler (1998) discovered that board meetings can be used to enhance the firm performance. This ensures the commitment of the board towards firm's strategies and not to be distracted by other issues. The second view states that board meetings are not useful and do not support the firm performance. This is because the agenda for meetings are set by executive directors, where, the non-executive directors are sidelined and

may not be in a position to raise and improve the firms' performance. Vafeas (1999) concluded there is negative relationship between the number of board meetings and firms' performance.

### **CEO duality**

Another aspect of corporate governance practices that can influence firm performance is the role duality of chairman and CEO. There are three viewpoints related to role duality. The first one believes that the best option is to separate chairman and CEO. Yermak (1996) concluded that non CEO duality had positive impact on stock return. Similarly, Sanda, Mikailu and Garaba (2003) discovered a positive relationship between non CEO duality and firm performance.

The second view of CEO duality is whether the managers are good stewards for the firm recourses or not. Chen and Cheung (2005) found that there is positive relationship between CEO duality and firm value. The third view of CEO duality is there is no conclusive relationship between CEO duality and firm performance. Brickley, Coles and Jerrell (1997) found no significant relationship between CEO duality and firm performance.

### **The board ownership**

The relationship between ownership structure and firm performance has been long debated in the literature.

When ownership is scattered, individual shareholders do not have the incentives to monitor the manager's behavior. On the other side, in the situation with concentration of ownership among large shareholders (individuals, institutions), there is a greater incentive for the monitoring and control process (Amba, 2013). Huge number of shareholders can lead to higher agency costs. This contributes towards the incentives and intensity for monitoring and control of the firm resources (Holderness, 2003).

Several empirical papers have investigated the impact of large shareholders on firm performance and the results were mixed. Seifert, Gonenc and Wright (2005) concluded that there is positive impact of large shareholders on firm performance. Similarly, Haniffa and Hudaib (2006) concluded that there is positive relationship between large shareholders and firm performance. On the other hand Davies, Hillier and Colgan (2005) and Mura (2006) discovered a negative significant relationship between large shareholders and firm performance.

### **The audit committee size**

The audit committee plays an important role in corporate governance as it jointly monitor and control the financial statements. Prudent audit committee reduces the probability of fraudulent financial statements (Rezaee, 2003). Many empirical papers studied the impact of audit committee size on firm performance. Coleman (2007), Akbar et al (2016)

and Haider (2015) discovered a positive significant relationship between the audit committee size and firm performance. However, Marn and Romuald (2012) concluded that there is negative impact of the audit committee size on firm performance.

### **According to the board compensations**

Board compensation is one of the most important aspects of corporate governance. Compensation is a corporate governance mechanism used to encourage management and board of directors to run the firm with the interest of shareholders and reduce the conflict of interest between agents and the principals (Vo & Phan, 2013). Several empirical studies investigated the impact of board compensations on firm performance with different results. Vo and Phan (2013) found that board compensations had positive impact on firm performance. (Fernandes, 2005) found no significant relationship between board compensation and firm performance for the companies listed in the Euronext Lisbon (Portuguese Stock Exchange) from 2002 to 2004. Core, Holthausen and Larcker (1999) and Brick, Palmon and Wald (2005) concluded that there was negative relationship between board compensations and firm performance.

From the previous deliberation the following research hypotheses were developed for the relationship between corporate governance and firm performance.

H<sub>C1</sub>: There is a relationship between corporate governance mechanisms and ROA.

H<sub>C2</sub>: There is a relationship between corporate governance mechanisms and ROE.

H<sub>C3</sub>: There is a relationship between corporate governance mechanisms and firms' revenues.

H<sub>C4</sub>: There is a relationship between corporate governance mechanisms and firms' net income.

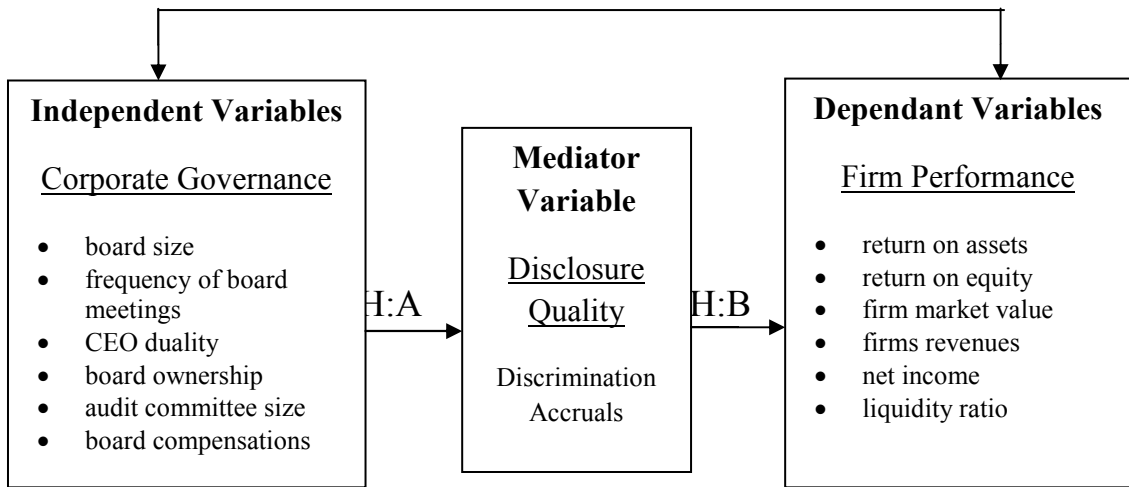
H<sub>C5</sub>: There is a relationship between corporate governance mechanisms and firms' liquidity.

H<sub>C6</sub>: There is a relationship between corporate governance mechanisms and firms market value.

## **2.8 Research Framework**

Based on the previous studies and the theoretical perspective related to the corporate governance the researcher developed the following research framework to explain the relationship between corporate governance mechanisms: board size, frequency of board meetings, CEO duality, board ownership, audit committee size and board compensations and firm performance: return on assets, return on equity, firm market value, firms revenues, net income and liquidity ratio through the mediating variable disclosure quality.

H:C



**Chapter Three**  
**Research Methodology**

## **Chapter Three**

### **Research Methodology**

#### **3.1 Introduction**

This study seeks to examine the impact of corporate governance mechanisms on firm's performance for the companies listed in Palestine Exchange through the mediating effect of disclosure quality. This chapter gives the explanation regarding to the data and methodology applied in this thesis. Firstly, it expounds the population and the source of data. Secondly, it constructs proxies and the measurements of the variables. Thirdly, it discusses the statistical methods used to analysis the data. Finally, it explains the research model.

#### **3.2 Study population and sample**

This thesis employs a panel data methodology. Data of all companies listed in the Palestine Exchange (PEX), which accounts to (49) company, from 2005 to 2016 is used. Because the number of companies in this market is small, the researcher decides to study all companies, in order to achieve valid results. The names of the companies are listed in appendix 1.

#### **3.3 Data of the study**

The study aims to examine the relationship between corporate governance mechanisms and the firm performance through the mediating effect of disclosure quality.

The data were used to enrich the theoretical framework of the study and to clarify the theories of accounting which dealt with the topic of study in general and subject of the relationship between corporate governance mechanisms and the financial performance of firms listed in the Palestine Exchange. Data has been collected from the annual reports for all companies listed in the PEX covering the period from 2005 to 2016. Any data was not available in the company's annual report was obtained from the company itself. Some of these firms were listed in the stock market after 2005, in this case, the researcher collected data only for the years after the firm was listed in the stock market. This means that the data is unbalanced. Panel data is known as longitudinal data or cross sectional time series data. It indicates to data on the same objects observed for several years. Greene (2008) discussed that some issues should not be studied only by cross sectional or time series data.

Panel data has several advantages as discussed by Hsio (2003) and Baltagi (2005). Some of these benefits of panel data is that it gives more informative data, less collinearity among variables, more degrees of freedom and also it offers more variability and more efficiency in estimating parameters. The short time series of data are susceptible to multicollinearity problems. Another benefit of panel data is that individual heterogeneity is controlled in panel data, as it reduces the problem of omitted variables. Moreover panel data allows researchers to study the complex issues of dynamic behaviors.

### 3.4 Variables Definition

#### 3.4.1 Independent variables

**Board size (BOS):** board of directors plays an essential role in corporate governance and is responsible for monitoring and controlling managers on behalf of shareholders. The number of board directors can influence the efficiency of board function and firm performance. Some researchers found that smaller board size are more efficient than larger one (Yermak, 1996). Other scholars noted that large board size is not efficient due to cultural variations (Jensen & Murphay, 1990). In this study board size presents the number of board of directors selected by shareholders following Huniffa & Hudaib (2006) and Manzanegue *et al.* (2015).

**Board ownership (BO):** Ownership structure is one of the most important aspects that affect corporate performance. Some authors found that ownership concentration has positive influence on firm performance because high concentration reduces agency problem, particularly, in countries that have low level of investor protection (Haniffa & Hudaib, 2006). On the other hand, other scholars indicated that there is negative relationship between ownership concentration and firm performance due to large shareholders having adequate stake to advance their interests at the expense of other minority shareholders (Mura, 2006). Board ownership measured in this study by the percentage of shares owned by the board of directors as discussed by Amba (2013) and Manzanegue *et al.* (2015).

**Board compensations (BC):** The main objective in modern corporate governance is to deal with agency problem (Jensen & Meckling, 1976). Since aims adopted by agents and principals are not aligned, agency theory assumes that conflict of interest between managers and shareholders exists. Compensations is one of corporate governance mechanisms used to encourage management to run the firm in the interest of shareholders (Jensen & Murphay, 1990). Board compensations proxied by the amount of money given to board members to encourage them run the firm instead of share holders as argued by Manuale *et al.* (2012), Vo & Phan (2013) and Abdullah (2004).

**For the role duality (RD):** CEO duality refers to one person serving as both company's CEO and board chairman. Based on agency theory, scholars suggest that separation between CEO and chairman can lead more efficiency in monitoring and controlling the firm. Johnson (1993) argued it is difficult for the board to proficiently carry out its critical role without the direction of independent leader. On the other hand, Feleye (2007) discussed the separation between CEO and Chairman may be counterproductive. Role duality is a dummy variable, if the chairman and the CEO is the same person, the variable is "0" otherwise it is "1". This is in line with Amba (2013), Abidin (2009) and Marn & Romuald (2012).

**Number of board meetings (NOM):** Board meetings are considered part of the board process and is an indicator of board assiduity. The frequency of board meetings is viewed as the density in board efficiency (Vafeas,

1999). Number of board meetings is measured by the number of board of directors meetings during the financial year following Coleman (2007) and Salim *et al.*(2014).

**Audit committee size (ACS):** Audit committee plays an essential role in corporate governance because it is responsible for monitoring the financial statements in order to reflect reality. Rezaee (2003) discussed that a prudent audit committee reduced the probability of fraud in financial statements. Audit committee size is measured by the number of the audit committee members as discussed by Akbar *et al.* (2016) and Darko *et al.* (2016).

### **3.4.2 Mediator variable**

The mediator variable used in this study is the disclosure quality (DQ). Normally, the quality of financial reports can be measured by the availability of qualitative characteristics of the accounting information (reliability and relevance). Due to the unfeasibility of finding a direct quantitative scale for these characteristics and following (Beest, Braam, & Boelens, 2009), the researcher measured the quality of financial reports by the degree to which companies practice earnings management.

It is proposed that higher disclosure quality is associated with lower earnings management practices. Since disclosure quality is derived from the quality of earnings disclosed in the financial reports, earning

management is measured by discrimination accruals as discussed by Bedard, Marrakchi and Courtean (2004) and Collins and Haribar (2002).

On the grounds that the quality of financial reporting is derived from the quality of profits stated in these reports, earning management is proxied by the discrimination accruals. The high level of discretionary accruals accounting present a greater gap between the economic performance and results shown in the financial reporting. Thus, the high accounting manipulation presents lower quality of the financial information presented by the company(Collins & Haribar, 2002).

To measure discretionary accruals, Under the cash flow approach, total accruals are measured as follows:  $TACC_{it} = EBXT_{it} - OCF_{it}$

where:

$EBXT_{it}$  = earnings before extraordinary items and discontinued operations for period t

$OCF_{it}$  = operating cash flow for period t

We estimate discretionary accruals (DACC) as the difference between total accruals (TACC) and nondiscretionary accruals (NDACC). To estimate nondiscretionary accruals, we first estimate the Modified Jones model, which is formulated as follows:  $TACC_{it} = \alpha_1(1/A_{i,t-1}) + \alpha_2(\Delta RV_{it} - \Delta REC_{it}) + \alpha_3 PPE_{it} + \epsilon_{it}$

where:

$TACC_{it}$  = total accruals for firm  $i$  in year  $t$  divided by total assets for firm  $i$  at the end of year  $t-1$ ,

$\Delta RV_{it}$  = change in revenue for firm  $i$  in year  $t$  divided by total assets for firm  $i$  at the end of year  $t-1$ ,

$\Delta REC_{it}$  = change in net receivable for firm  $i$  in year  $t$  divided by total assets for firm  $i$  at the end of year  $t-1$ ,

$PPE_{it}$  = property, plant and equipment for firm  $i$  in year  $t$  divided by total assets for firm  $i$  at the end of year  $t-1$ .

The estimates of  $\alpha_1$ ,  $\alpha_2$ , and  $\alpha_3$  obtained from these regressions are then used to estimate nondiscretionary accruals as follows:  $NDACC_{it} = \hat{\alpha}_1(1/A_{i,t-1}) + \hat{\alpha}_2 (\Delta RV_{it} - \Delta REC_{it}) + \hat{\alpha}_3 PPE_{it}$  Finally, discretionary accruals are estimated as:  $DACC_{it} = TACC_{it} - NDACC_{it}$ .

### 3.4.3 Dependent variables

The dependent variables of this study are variables that are related to firm performance and profitability. In the accounting literature, different measurements are used to measure these variables as follows:

**Return on assets (ROA):** presents the proficient of the company's assets in generating profits. It indicates the efficiency of the company's assets in increasing shareholders' economic interests. ROA is measured by dividing net income of the firm by its total assets following Coleman (2007) and Zabri *et al.* (2015).

**Return on equity (ROE):** focuses just on the equity component of the investment, and it specifies the earnings left over for equity investors after debt service costs have been factored into the equity invested in the asset. ROE measured by dividing net income of the firm by its total equity as discussed by Zabri *et al.* (2015) and Ponnu (2008).

**Revenue (RV):** is the firms income and measured via the total revenue of the firm as argued by Aggarwal (2013) and Joh (2003).

**Net income (NI):** is measured by net income of the firm as discussed by Bauer *et al.* (2004) and Marn & Romuald (2012).

**Liquidity (LQ):** firms liquidity measured by dividing current assets with current liabilities as argued by Salim *et al.* (2014) and Akbar *et al.* (2016).

**Firm market value (FMV):** measures performance in terms of company valuation. Tobin's Q is measured by the market share price multiplied by outstanding shares as discussed by Dwivedi & Jain (2005).

### **3.5 Statistical methods used to analysis data**

This study seeks to investigate the relationship between corporate governance mechanisms and firm performance through the mediating effect of disclosure quality. The data obtained needs to be analyzed and explained in order to meet the research objectives and answer the research questions. The selection of data analysis based on varied portions, such as, the type and the nature of the variables and the study design. The

researcher used descriptive statistic to convert the data collected in a manner that portrays basic characteristics and summarizes (or explains) a given set of data. The following techniques have been used:

- a. To describe the variables of the study, Mean, Standard Deviation, Median, Minimum value, Maximum value, Skewness, Kurtosis and Jarque-Bera have been used for each variable. The mean, median and standard deviation measure the central tendency of the variable (Veal, 2005). The skewness and kurtosis values explain the shape of the data distribution. In particular, skewness measures the symmetry of distribution, while kurtosis measures the peakedness or flatness of the distribution (height), as compared to the normal distribution (Field, 2009). Jarque-Bera is used to test if the variables are normally distributed or not.
- b. Pearson correlation matrix is used to check the correlation between variables (independent, mediator and dependant).
- c. Data Stationarity: To test the stationarity of the data, the Unit Root Test has been used. This test links the time series information and cross-section data information to each other. The test examines the properties of the time series data and to ascertain their stability. There are many tests that have been developed for this purpose. ADF test (Augmented Dickey Fuller Test) is the predominant test used; which is adopted. Depending on the result of (ADF), if the variable has unit root, the

variable has to be analyzed at the first difference. If the variable does not have unit root at this level, we can proceed to test the hypotheses.

- d. Generalized Method of Moment (GMM): It is based on the Box and Pierce methodology (Box & Pierce, 1970). Statistics and econometrics use a single-equation or multi-equation regression models of time series for modeling economic variables and their interrelations. The fundamental assumption is that time series are stationary or the linear combination is stationary in the case of multi-equation models. However, in practice, this condition is often not achieved because most of economic time series are non-stationary. Non stationarity of the economic variables will lead to the abuse of the classical assumptions of standard regression methods and might cause spurious estimates. Classical regression properties hold only for cases where variables are stationary. Most economic variables are not stationary and do not satisfy these assumptions. For this reason and due to small size of the population, generalized method of moment (GMM) will be applied to test the hypotheses of the study and it is more appropriate for the analysis than classical regression models. Generalized method of moments (GMM) is a general estimation principle. Estimators are derived from so-called moment conditions. Accordingly, in this study, the researcher will use GMM at first difference with one lagged dependent variable, which allows for the modeling of a partial adjustment mechanism.

### 3.6 Research models

Based on the previous literature and the groups of hypotheses the researcher developed the following models to test the hypotheses for each group. The first model for group A of hypotheses to examine the effect of corporate governance mechanisms on disclosure quality.

$$DQ_{it} = \alpha + \beta_{BOS}BOS_{it} + \beta_{BO}BO_{it} + \beta_{BC}BC_{it} + \beta_{RD}RD_{it} + \beta_{NOM}NOM_{it} + \beta_{ACS}ACS_{it} + \beta_t + e \quad (\text{eq.1})$$

Where:

DQ presents disclosure quality for companies, which is measured by discrimination accruals, BOS is the board size for these companies, BO is the board ownership, BC is the board compensations, RD is the CEO duality (i.e. whether the CEO and the chairman is the same person), NOM is the number of board meetings during the financial year, ACS presents the size of the audit committee, and  $\beta_{1-6}$  is the coefficient of the variables.

For group B hypotheses, the researcher developed six models to examine the effect of disclosure quality on firm's financial performance.

$$ROA_{it} = \alpha + \beta_{DQ}DQ_{it} + \beta_t + e \quad (\text{eq.2})$$

$$ROE_{it} = \alpha + \beta_{DQ}DQ_{it} + \beta_t + e \quad (\text{eq.3})$$

$$RV_{it} = \alpha + \beta_{DQ}DQ_{it} + \beta_t + e \quad (\text{eq.4})$$

$$NI_{it} = \alpha + \beta_{DQ}DQ_{it} + \beta_t + e \quad (\text{eq.5})$$

$$LQ_{ti} = \alpha + \beta DQ_{ti} + \beta t + e \quad (\text{eq.6})$$

$$FMV_{ti} = \alpha + \beta DQ_{ti} + \beta t + e \quad (\text{eq.7})$$

Where ROA refers to the return on assets for companies listed at Palestine Exchange, while ROE is the returns on equity, RV is the revenues for that companies, NI is the net income, LQ and FMV is the firm's liquidity and market firm value respectively. DQ is the disclosure quality for the companies listed in PEX.

For group C hypotheses, the researcher developed another six models to examine the impact of corporate governance mechanisms on firms performance:

$$ROA_{ti} = \alpha + \beta BOST_{ti} + \beta BO_{ti} + \beta BC_{ti} + \beta RD_{ti} + \beta NOM_{ti} + \beta ACSt_{ti} + \beta t + e \quad (\text{eq.8})$$

$$ROE_{ti} = \alpha + \beta BOST_{ti} + \beta BO_{ti} + \beta BC_{ti} + \beta RD_{ti} + \beta NOM_{ti} + \beta ACSt_{ti} + \beta t + e \quad (\text{eq.9})$$

$$RV_{ti} = \alpha + \beta BOST_{ti} + \beta BO_{ti} + \beta BC_{ti} + \beta RD_{ti} + \beta NOM_{ti} + \beta ACSt_{ti} + \beta t + e \quad (\text{eq.10})$$

$$NI_{ti} = \alpha + \beta BOST_{ti} + \beta BO_{ti} + \beta BC_{ti} + \beta RD_{ti} + \beta NOM_{ti} + \beta ACSt_{ti} + \beta t + e \quad (\text{eq.11})$$

$$LQ_{ti} = \alpha + \beta BOST_{ti} + \beta BO_{ti} + \beta BC_{ti} + \beta RD_{ti} + \beta NOM_{ti} + \beta ACSt_{ti} + \beta t + e \quad (\text{eq.12})$$

$$FMV_{ti} = \alpha + \beta BOST_{ti} + \beta BO_{ti} + \beta BC_{ti} + \beta RD_{ti} + \beta NOM_{ti} + \beta ACSt_{ti} + \beta t + e \quad (\text{eq.13})$$

Where ROA refers to the return on assets for companies listed at Palestine Exchange, while ROE is the returns on equity, RV is the revenues for the companies, NI is the net income, LQ and FMV is the firms liquidity

and market firm value respectively. BOS is the board size for these companies, BO is the board ownership for these companies, BC is the board compensations, RD is the CEO duality wither the CEO and the chairman is the same person. NOM is the number of board meetings during the financial year and ACS presents the size of the audit committee.

# **Chapter Four**

## **Results and Discussion**

## **Chapter Four**

### **Results and Discussion**

#### **4.1 Introduction**

This chapter presents the analysis and the results obtained from the secondary data. The main objective of this study is to empirically investigate the relationship between corporate governance mechanisms and firms' performance through the mediating effect of disclosure quality for the firms listed in Palestine Exchange covering the period from 2005 to 2016. The structure of this chapter is as follows. The first section reports the descriptive statistics for the variables. The second section reports the correlation analysis and multicollinearity. The third section provides the results of unit root tests. The last section explains the hypotheses test.

#### **4.2 Descriptive statistics of variables**

In order to describe the variables of the study statistically, the mean, largest value, lowest value, standard deviation and Jarque – Bera statistics were calculated. In table 1 it can be observed that for the corporate governance variables, audit committee size (ACS) has a mean of 3.13 with a maximum value of 6 and a minimum value of 3. Its standard deviation is 0.54, while the probability of the Jarque-Bera test is 0.00, which suggests that the variable is not normally distributed. The second corporate governance variable (BC) Board compensations has a mean of 143,040 with a maximum value of 1,167,800 and a minimum value of 2000 and a standard deviation of 211,968. In addition, the P-value probability of Jarque-Bera

test is 0.00 which means that the variable is not normally distributed. The third corporate governance variable (BO) Board ownership has mean of 0.58 with maximum value of 0.97 and a minimum value 0.05 and standard deviation of 0.20. In addition, the P-value probability of Jarque-Bera test is 0.00 which also suggests that the variable is not normally distributed. The fourth corporate governance mechanism (BOS) Board size has a mean of 9.1 members with maximum value of 13 members and a minimum value of 5 and standard deviation of 1.82. In addition, the P-value probability of Jarque-Bera test is 0.02 which means that the variable is not normally distributed. The fifth corporate governance mechanism (RD) has a mean of 0.66 and standard deviation of 0.48 *i.e.* the variable isn't normally distributed. The sixth corporate governance mechanism, number of meetings (NOM) has a mean of 6.21 times with maximum value of 13 and minimum value of 3 and standard deviation of 1.84. Similarly, the P-value probability of Jarque-Bera test shows that the variable is not normally distributed. The mediator variable is the disclosure quality (DQ) has a mean of 2,250,191 with a maximum value of 24,772,778 and minimum value -43,581,999 and standard deviation 8,574,305. The P-value probability of Jarque-Bera test shows that the variable isn't normally distributed.

Return on assets (ROA) has a mean of 0.03 with a maximum value of 0.28 and minimum value of -0.19 and standard deviation of 0.06. The P-value probability of Jarque-Bera test shows that the variable is not normally

distributed. Return on equity (ROE) has a mean of 0.07 with a maximum value of 0.89 and minimum value -0.82 and standard deviation of 0.14., The P-value probability of Jarque-Bera test suggests that the variable is not normally distributed. Revenues (RV) has a mean of 38,214,103 with maximum value of 600,000,000 and minimum value 28,752 and standard deviation (82,313,455). Similarly, the P-value probability of Jarque-Bera test suggests that the variable is not normally distributed. Net income (NI) has mean of 7,448,877, with maximum value of 120,000,000 and minimum value of - 16,525,607 and standard deviation 18,589,165. The P-value probability of Jarque-Bera test suggests that the variable is not normally distributed. Liquidity (LQ) has a mean of 2.25 time with a maximum value of 33.75 and minimum value of 0.05 and standard deviation of 2.77 time. The P-value probability of Jarque-Bera test shows that the variable is not normally distributed. Firm market value (FMV) has a mean of 94,015,135 with maximum value of 1,470,000,000 and minimum value 1,450,000 with standard deviation of 192,000,000. The P-value probability of Jarque-Bera test suggests that the variable isn't normally distributed.

**Table (1): Results of descriptive statistics of variables study**

Measure	ACS	RD	BC	BO	BOS	DQ	LQ
Mean	3.13	0.66	143,040	0.58	9.10	(2,250,191)	2.25
Median	3.00	1.00	68,000	0.56	9.00	(768,480)	1.37
Maximum	6.00	1.00	1,167,800	0.97	13.00	24,772,778	33.75
Minimum	1.00	-	2,000	0.05	5.00	(43,581,999)	0.05
Std. Dev.	0.54	0.48	211,968	0.20	1.82	8,574,305	2.77
Skewness	2.27	(0.66)	3	0.04	(0.18)	(2)	6.49
Kurtosis	13.04	1.44	12	2.29	2.28	11	64.44
Jarque-Bera	1491.38	52	1327.48	6.22	7.87	1132.43	48472.95
Probability	0.00	0.00	0.00	0.04	0.02	0.00	0.00
Observations	295	295	295	295	295	295	295
Measure	NI	NOM	ROA	ROE	RV	FMV	
Mean	7,448,877	6.21	0.03	0.07	38,214,103	94,015,135	
Median	1,480,217	6.00	0.02	0.06	12,563,185	32,265,750	
Maximum	120,000,000	13.00	0.28	0.89	600,000,000	1,470,000,000	
Minimum	(16,525,607)	3.00	(0.19)	(0.82)	28,752	1,450,000	
Std. Dev.	18,589,165	1.48	0.06	0.14	82,313,455	192,000,000	
Skewness	3	2.17	0.77	(0.33)	4	4	
Kurtosis	15	10.01	6.33	16.43	22	20	
Jarque-Bera	2,461	836	165	2,223	5,430	4,329	
Probability	0.00	0.00	0.00	0.00	0.00	0.00	
Observations	295	295	295	295	295	295	

### 4.3 Pearson Correlation Matrix

In order to detect the multicollinearity problem between Independent variables and to measure the power and direction of the relationship between independent and dependent variables, Pearson correlation test was conducted as follows:

A. Table 2 shows the correlation among the independent variables (corporate governance mechanisms) and the mediator variable (disclosure quality). Gujarati (2003) reports that serious collinearity is indicated only if the coefficients of correlation between independent variables exceed 80%. It is clear from table 2 the highest correlation was between audit committee size and board compensation which amount to 40.20%. This suggests that there is no multicollinearity problem between the independent variables. The relationship between board size (BOS) and disclosure quality (DQ) is negative and insignificant. This means that when the number of board members increases, the disclosure quality will decrease. The relationship between board ownership (BO) and disclosure quality (DQ) is negative and insignificant. This means that when the number of shares owned by board members increases, the disclosure quality will decrease. The relationship between board compensation (BC) and disclosure quality (DQ) is positive and insignificant. This means that when the board compensation increases, the disclosure quality will increase. The relationship between role duality (RD) and disclosure quality (DQ) is

positive and significant. This means, when the positions of the chairman and the CEO are separated the disclosure quality will increase. The relationship between the number of board meetings (NOM) and disclosure quality (DQ) is positive and significant. This means that when the number of board meeting increases, the disclosure quality will increase. The relationship between audit committee size (ACS) and disclosure quality (DQ) is positive and significant. This means, when the number of members of the audit committee increases, the disclosure quality will increase.

**Table (2) : Pearson correlation matrix between corporate governance and disclosure quality**

Variables	BOS	BO	BC	RD	NOM	ACS	DQ
<b>BOS</b>	1						
<b>Sig (2tailed)</b>							
<b>BO</b>	-.079	1					
<b>Sig (2tailed)</b>	.084						
<b>BC</b>	.090	-.235**	1				
<b>Sig (2tailed)</b>	.076	.000					
<b>RD</b>	.007	.182**	-.169**	1			
<b>Sig (2tailed)</b>	.874	.000	.001				
<b>NOM</b>	-.032	-.243**	.224**	.122**	1		
<b>Sig (2tailed)</b>	.489	.000	.000	.008			
<b>ACS</b>	.149**	-.126*	.402**	-.151**	.168**	1	
<b>Sig (2tailed)</b>	.006	.020	.000	.005	.002		
<b>DQ</b>	-.070	-.043	.004	.122**	.157**	.116*	1
<b>Sig (2tailed)</b>	.127	.351	.939	.008	.001	.032	

\*, \*\* significant at 5% and 1% respectively

**B.** Table 3 shows the results of correlation matrix between the mediator variable (*i.e.* disclosure quality) and dependent variables (*i.e.* firm performance). It is noticed that the relationship between disclosure quality and return on assets (ROA) is negative and significant. This

means, when the disclosure quality increases, ROA will decrease. The relationship between disclosure quality and return on equity (ROE) is negative and significant. This means that when the disclosure quality increases, ROE will decrease. The relationship between disclosure quality and revenues (RV) is negative and significant. This indicates that when the disclosure quality increases, revenues (RV) will decrease. The relationship between disclosure quality and net income (NI) is negative and significant. This denotes that when the disclosure quality increases, net income (NI) will decrease. The relationship between disclosure quality and liquidity ratio (LQ) is positive and insignificant. This means that when the disclosure quality increases the liquidity ratio (LQ) will increase. The relationship between disclosure quality and firm market value (FMV) is negative and significant. This suggests that when the disclosure quality increases, firm market value (FMV) will decrease. It can be seen that all the dependent variables except liquidity ratio (LQ) are correlated with the independent variable disclosure quality in a negative and significant way.

**Table (3): Pearson correlation matrix between disclosure quality and firm performance**

Variables	ROA	ROE	RV	NI	LQ	FMV	DQ
<b>ROA</b>	1						
<b>Sig (2tailed)</b>							
<b>ROE</b>	.731**	1					
<b>Sig (2tailed)</b>	.000						
<b>RV</b>	.219**	.187**	1				
<b>Sig (2tailed)</b>	.000	.000					
<b>NI</b>	.356**	.306**	.703**	1			
<b>Sig (2tailed)</b>	.000	.000	.000				
<b>LQ</b>	.000	-.015	-.104*	-.071	1		
<b>Sig (2tailed)</b>	.994	.748	.024	.122			
<b>FMV</b>	.284**	.225**	.631**	.889**	-.080	1	
<b>Sig (2tailed)</b>	.000	.000	.000	.000	.081		
<b>DQ</b>	-.230**	-.119**	-.572**	-.559**	.068	-.509**	1
<b>Sig (2tailed)</b>	.000	.010	.000	.000	.136	.000	

\*, \*\* significant at 5% and 1% respectively

C. Person correlation matrix between the independent variables (*i.e.* corporate governance mechanisms) and dependent variables (*i.e.* firm performance) was constructed for each dependent variable as follows:

- i. Table 4 shows the results of Pearson correlation matrix between the independent variables (*i.e.* corporate governance mechanisms) and the dependent variable return on assets (ROA). From the table 4 the relationship between board size (BOS) and return on assets (ROA) is positive and insignificant. This means, when the number of board members increases, ROA will increase. The relationship between board ownership (BO) and return on assets (ROA) is positive and insignificant. This suggests that when board ownership increases, ROA will increase. The relationship between board compensations (BC) and return on assets (ROA) is positive and insignificant. This

means that when the compensations of board members increases, ROA will increase. The relationship between role duality (RD) and return on assets (ROA) is negative and significant. This denotes that when the position of the chairman and the CEO are the same, ROA will decrease. The relationship between the number of board meetings (NOM) and return on assets (ROA) is negative and insignificant. This means, when the number of board meetings increases, ROA will decrease. The relationship between audit committee size (ACS) and return on assets (ROA) is positive and insignificant. This suggests that when the number of audit committee members increases, ROA will increase. It can be concluded that only the corporate governance mechanism role duality (RD) has a negative significant relationship with ROA while other variables do not have any significant relationship with ROA.

**Table (4) : Pearson correlation matrix between corporate governance and ROA**

Variables	BOS	BO	BC	RD	NOM	ACS	ROA
<b>BOS</b>	1						
<b>Sig (2tailed)</b>							
<b>BO</b>	-.079	1					
<b>Sig (2tailed)</b>	.084						
<b>BC</b>	.090	-.235**	1				
<b>Sig (2tailed)</b>	.076	.000					
<b>RD</b>	.007	.182**	-.169**	1			
<b>Sig (2tailed)</b>	.874	.000	.001				
<b>NOM</b>	-.032	-.243**	.224**	.122**	1		
<b>Sig (2tailed)</b>	.489	.000	.000	.008			
<b>ACS</b>	.149**	-.126*	.402**	-.151**	.168**	1	
<b>Sig (2tailed)</b>	.006	.020	.000	.005	.002		
<b>ROA</b>	.014	.061	.031	<b>-.210**</b>	-.058	.021	1
<b>Sig (2tailed)</b>	.767	.187	.546	<b>.000</b>	.203	.696	

\*, \*\* significant at 5% and 1% respectively

- ii. Table 5 shows the results of Pearson correlation matrix between the independent variables (*i.e.* corporate governance mechanisms) and dependent variable return on equity (ROE). From the table 5 the relationship between board size (BOS) and return on equity (ROE) is positive and insignificant. This means, when the number of board members increases, ROE will increase. The relationship between board ownership (BO) and return on equity (ROE) is negative and insignificant. This suggests that when board ownership increases, ROE will decrease. The relationship between board compensations (BC) and return on equity (ROE) is positive and significant. This means, when the compensations of board members increase, ROE will increase. The relationship between role duality (RD) and return on equity (ROE) is negative and significant. This denotes that when the positions of the chairman and the CEO are the same, ROE will decrease. The relationship between number of board meetings (NOM) and return on equity (ROE) is positive and insignificant. This means, when the number of board meetings increases, ROE will increase. The relationship between audit committee size (ACS) and return on equity (ROE) is positive and significant. This means, when the number of audit committee members increases, ROE will increase. It can be concluded that only role duality (RD), board compensations (BC) and audit committee size have a significant relationship with ROE, while other variables do not have any significant relationship with ROE.

**Table (5) : Pearson correlation matrix between corporate governance and ROE**

<b>Variables</b>	<b>BOS</b>	<b>BO</b>	<b>BC</b>	<b>RD</b>	<b>NOM</b>	<b>ACS</b>
<b>ROE</b>	.007	-.022	<b>.203**</b>	<b>-.216**</b>	.007	.126*
<b>Sig (2tailed)</b>	.873	.625	<b>.000</b>	<b>.000</b>	.873	.020

\*, \*\* significant at 5% and 1% respectively

- iii. Table 6 shows the results of Pearson correlation matrix between the independent variables (*i.e.* corporate governance mechanisms) and dependent variable (*i.e.* revenues (RV)). From the table 6 the relationship between board size (BOS) and revenues (RV) is positive and insignificant. This means, when the number of board members increases, RV will increase. The relationship between board ownership (BO) and revenues (RV) is negative and insignificant. This means that when the board ownership increases, RV will decrease. The relationship between board compensations (BC) and revenues (RV) is positive and significant. This suggests that when the board compensations increase, RV will follow. The relationship between role duality (RD) and revenues is negative and significant. This shows that when the positions of the chairman and the CEO are the same, revenues will decrease. The relationship between number of board meetings (NOM) and revenues is positive and significant. This means, when the number of board meetings increases, the revenues will increase. The relationship between audit committee size (ACS) and revenues (RV) is positive and insignificant. This means, when the number of audit committee members increases, revenues will increase. The researcher concludes that only role duality (RD), board

compensations (BC) and number of board meetings (NOM) have a significant relationship with the (RV) while other variables do not.

**Table (6) : Pearson correlation matrix between corporate governance and revenues (RV)**

<b>Variables</b>	<b>BOS</b>	<b>BO</b>	<b>BC</b>	<b>RD</b>	<b>NOM</b>	<b>ACS</b>
<b>RV</b>	.055	-.088	<b>.328**</b>	<b>-.179**</b>	<b>.130**</b>	.004
<b>Sig (2tailed)</b>	.231	.054	<b>.000</b>	<b>.000</b>	<b>.004</b>	.944

**\*\*significant at 1%**

- iv. Table 7 shows the results of Pearson correlation matrix between the independent variables corporate governance mechanisms and dependent variable net income (NI). From the table 7, the relationship between board size (BOS) and net income (NI) is positive and insignificant. This means, when the number of board members increases, net income will increase. The relationship between board ownership (BO) and net income (NI) is negative and significant. This means that when the board ownership increases, net income will decrease. The relationship between board compensations (BC) and net income is positive and significant. This suggests that when the board compensations increase, net income will also increase. The relationship between role duality (RD) and net income is negative and significant. This means, when the positions of the chairman and the CEO are the same, net income will decrease. The relationship between number of board meetings (NOM) and net income is positive and significant. This means, when the number of board meetings increases, net income will increase. The relationship between audit

committee size (ACS) and net income is positive and insignificant. This suggests that when the number of audit committee members increases, net income will increase. The researcher conclude that only role duality (RD), board ownership (BO), board compensations (BC) and number of board meetings have a significant relationship with the (NI) while other variables do not.

**Table (7): Pearson correlation matrix between corporate governance and net income (NI)**

<b>Variables</b>	<b>BOS</b>	<b>BO</b>	<b>BC</b>	<b>RD</b>	<b>NOM</b>	<b>ACS</b>
<b>NI</b>	.064	-.129 <sup>**</sup>	.476 <sup>**</sup>	-.135 <sup>**</sup>	.096 <sup>*</sup>	.036
<b>Sig (2tailed)</b>	.166	.005	.000	.003	.036	.508

<sup>\*</sup>, <sup>\*\*</sup> significant at 5% and 1% respectively

- v. Table 8 shows the results of Pearson correlation matrix between the independent variables (*i.e.* corporate governance mechanisms) and dependent variable liquidity ratio (LQ). From table 8, the relationship between board size (BOS) and liquidity ratio is negative and insignificant. This means, when the number of board members increases, liquidity ratio will decrease. The relationship between board ownership (BO) and liquidity ratio is positive and insignificant. This means, when the board ownership increases, liquidity ratio will increase. The relationship between board compensations (BC) and liquidity ratio is negative and significant. This means that when the board compensations increase, liquidity ratio will decrease. The relationship between role duality (RD) and liquidity ratio is positive and insignificant. This denotes that when the positions of the chairman

and the CEO are separated, liquidity ratio will increase. The relationship between number of board meetings (NOM) and liquidity ratio is negative and significant. This means, when the number of board meetings increases, liquidity ratio will decrease. The relationship between audit committee size (ACS) and liquidity ratio is negative and insignificant. This means that when the number of audit committee members increases, liquidity ratio will decrease. The researcher concludes that only board compensations (BC) and number of board meetings (NOM) have a significant relationship with the (LQ).

**Table (8): Pearson correlation matrix between corporate governance and liquidity ratio (LQ)**

<b>Variables</b>	<b>BOS</b>	<b>BO</b>	<b>BC</b>	<b>RD</b>	<b>NOM</b>	<b>ACS</b>
<b>LQ</b>	-.049	.020	<b>-.110*</b>	.067	<b>-.165**</b>	-.021
<b>Sig (2tailed)</b>	.288	.666	<b>.031</b>	.146	<b>.000</b>	.703

\*, \*\* significant at 5% and 1% respectively

- vi. Table 9 shows the results of Pearson correlation matrix between the independent variables (*i.e.* corporate governance mechanisms) and dependent variable, firm market value (FMV). From table 9, it can be seen that the relationship between board size (BOS) and firm market value is positive and insignificant. This means, when the number of board members increases, firm market value will increase. The relationship between board ownership (BO) and firm market value is negative and significant. This means, when the board ownership increases, firm market value will decrease. The relationship between

board compensations (BC) and firm market value is positive and significant. This suggests that when board compensations increase, firm market value will increase. The relationship between role duality (RD) and firm market value is negative and insignificant. This denotes that when the positions of the chairman and the CEO are the same, firm market value will decrease. The relationship between number of board meetings (NOM) and firm market value is positive and significant. This means, when the number of board meetings increases, firm market value will increase. The relationship between audit committee size (ACS) and firm market value is positive and insignificant, this means, when the number of audit committee members increases, firm market value will increase. It can be concluded that only board ownership (BO), board compensations (BC) and number of board meetings (NOM) and have a significant relationship with the (FMV).

**Table (9): Pearson correlation matrix between corporate governance and firm market value (FMV)**

<b>Variables</b>	<b>BOS</b>	<b>BO</b>	<b>BC</b>	<b>RD</b>	<b>NOM</b>	<b>ACS</b>
<b>FMV</b>	.052	-.101*	.455**	-.085	.105*	.053
<b>Sig (2tailed)</b>	.260	.028	.000	.065	.022	.335

\*,\*\*significant at 5% and 1% respectively

#### 4.4 Unit root test

The stationarity of the variables being studied (dependent, mediating and independent variables) was tested using the Augmented Dickey-Fuller (ADF) test, which is discussed earlier, to ensure that there is no unit root

problem. The results of the ADF test at the first level indicated that all variables are not stationary except (ROA, ROE, LQ and FMV). This leads to the acceptance of the unit root null hypothesis. The variables were then tested at the first difference. The results showed stationarity of the data for all variables. Table 10 views that P-Values of ADF for all variables at the level, first difference and second difference are significant and there is no unit root problem.

**Table (10): Results of Augmented Dickey-Fuller test for Unit root**

Variable	Level		First Difference	
	ADF statistics	P- Value	ADF statistics	P- Value
<b>BOS</b>	41.96	0.9629	<b>98.67</b>	<b>0.0012</b>
<b>BO</b>	72.47	0.6554	<b>134.71</b>	<b>0.0000</b>
<b>BC</b>	63.99	0.4063	<b>100.93</b>	<b>0.0000</b>
<b>RD</b>	19.45	0.4924	<b>54.05</b>	<b>0.0001</b>
<b>NOM</b>	53.88	0.1983	<b>97.25</b>	<b>0.0000</b>
<b>ACS</b>	22.40	0.2145	<b>37.76</b>	<b>0.0042</b>
<b>DQ</b>	81.07	0.3834	<b>185.46</b>	<b>0.0000</b>
<b>ROA</b>	<b>109.14</b>	<b>0.0115</b>	<b>213.15</b>	<b>0.0000</b>
<b>ROE</b>	<b>111.30</b>	<b>0.0079</b>	<b>203.72</b>	<b>0.0000</b>
<b>RV</b>	76.51	0.5265	<b>142.30</b>	<b>0.0000</b>
<b>NI</b>	80.38	0.4043	<b>206.43</b>	<b>0.0000</b>
<b>LQ</b>	<b>162.68</b>	<b>0.0000</b>	<b>218.15</b>	<b>0.0000</b>
<b>FMV</b>	110.27	<b>0.0095</b>	<b>146.90</b>	<b>0.0000</b>

#### 4.5 Hypotheses Test

Regression models were used in modeling economic variables and their interrelations. Their fundamental assumption is that time series or their linear combinations are stationary. Nevertheless, in practice this condition is often not attained as most of economic time series are non-stationary. Non stationarity of the economic variables could lead to the

abuse of the classical assumptions of standard regression methods and this might cause spurious estimates. Classical regression properties hold only for cases where variables are stationary but most economic variables are not stationary. For this reason and due to small size of the population and the efficiency of generalized method of moment (GMM) , it will be used to test the hypotheses of the study. It will be done through first difference with one lagged dependent variable, allowing for the modeling of a partial adjustment mechanism. This is more appropriate for this analysis. The following are the results of hypotheses testing:-

#### **4.5.1 Group (A) Hypotheses: The relationship between corporate governance mechanisms and disclosure quality.**

Table 11 shows the results of testing the relationship between corporate governance mechanisms and disclosures quality (DQ). The test is conducted at first difference by entering the mediator variable (*i.e.* disclosure quality) as instrumental variable. According to J-statistic, the model is fit and suitable to test the hypothesis.

The results of hypotheses testing as follows:

H<sub>A1</sub>: There is a relationship between board size and disclosure quality.

According to table 11 the coefficient of the board size (BOS) is positive and significant. The number of board members influences the disclosure quality positively. This result is in line with the result of Gois (2008) in the Portuguese context which indicate that when the number of

board members increases the disclosure quality increases. The results lead us to reject the null hypothesis and accept the alternative one ( $H_{A1}$ : There is a relationship between board size and disclosure quality).

$H_{A2}$ : There is a relationship between the frequency of board meetings and disclosure quality.

From the table 11, the coefficient of the frequency of board meetings (NOM) is negative and insignificant. The frequency of board meetings does not influence the disclosure quality. This finding contradicts Karamanou and Vafeas (2005) and Laksmana (2008) who found positive association between the frequency of board meetings and disclosure quality. This result leads us to accept the null hypothesis  $H_{A2}$ : There is no significant relationship between the frequency of board meetings and disclosure quality.

$H_{A3}$ : There is a relationship between CEO duality and disclosure quality.

From the table 11, the coefficient of the CEO duality (RD) is negative and significant. This suggests that when the position of the chairman and the CEO are held by the same person, disclosure quality goes down. Role duality influences disclosure quality negatively. This finding is consistent with the result by Holtz and Neto (2014) and Fodio *et al.* (2013). The results lead us to reject the null hypothesis and accept the alternative one  $H_{A3}$ : There is a relationship between CEO duality and disclosure quality.

H<sub>A4</sub>: There is a relationship between board ownership and disclosure quality.

From table 11, it can be observed that the relationship between board ownership and disclosure quality is positive and significant. The board ownership of equity is influencing the disclosure quality positively. When the board members ownership increases, the disclosure quality also increases. This result is in line with (Luo *et al.*, 2006) and (Huafang & Jianguo, 2007). The results lead us to reject the null hypothesis and accept its alternative H<sub>A4</sub>: There is a relationship between board ownership and disclosure quality.

H<sub>A5</sub>: There is a relationship between audit committee size and disclosure quality.

From the table 11 it can be seen that the relationship between audit committee size and disclosure quality is negative and significant. The audit committee size is influencing the disclosure quality negatively. When the number of audit committee increases, the disclosure quality will decrease. This result was confirmed by Yong & Krishnan (2005) The result leads us to reject the null hypothesis and accept its alternative H<sub>A5</sub>: There is a relationship between the audit committee size and disclosure quality.

H<sub>A6</sub>: There is a relationship between board compensations and disclosure quality.

From table 11, it can be observed that board compensations and disclosure quality has a negative and significant relationship. Board compensation influences the disclosure quality negatively. When the compensation of the board increases, the disclosure quality decreases. This result is inconsistent with (Alhazaimeh *et al.*, 2014) and (Chiang & He, 2010) who both concluded that board compensations affect disclosure quality positively. The results lead us to reject the null hypothesis and accept its alternative  $H_{A6}$ : There is a relationship between board compensations and disclosure quality.

**Table (11): results of relationship between corporate governance mechanisms and disclosure quality generalized method of moment (GMM)**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
<b>DQ(-1)</b>	0.177411	0.001134	<b>156.4568**</b>	<b>0.0000</b>
<b>BOS</b>	61542.64	20195.3	<b>3.047375**</b>	<b>0.0026</b>
<b>BO</b>	26450198	264294.5	<b>100.0785**</b>	<b>0.0000</b>
<b>BC</b>	-2.88563	0.237435	<b>-12.1534**</b>	<b>0.0000</b>
<b>RD</b>	-3136590	48281.39	<b>-64.9648**</b>	<b>0.0000</b>
<b>NOM</b>	-149601	112398.4	-1.33099	0.1845
<b>ACS</b>	-219502	24249.37	<b>-9.05188**</b>	<b>0.0000</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	67910.47	<b>S.D. dependent var</b>	3798898	
<b>S.E. of regression</b>	4948377	<b>Sum squared resid</b>	5.58E+15	
<b>J-statistic</b>	<b>23.68617</b>	<b>Instrument rank</b>	34	
<b>Prob (J-statistic)</b>	<b>0.593905</b>			

**\*\* Significant at 1%**

#### **4.5.2 Group (B) Hypotheses: The relationship between disclosure quality and firm performance.**

This hypothesis was tested by applying the generalized method of moment (GMM) at first difference. The results of testing hypothesis are as follows:

$H_{B1}$ : There is a relationship between disclosure quality and return on assets (ROA).

Table 12 shows the results of testing the relationship between disclosure quality and firm performance (ROA) using (GMM). The results indicated a negative significant relationship between the two variables. This means that disclosure quality influences return on assets (ROA) negatively. When the disclosure quality increases, ROA will decrease. This result is contradicts Mohamadi (2016) who discussed that disclosure quality has a positive impact on return on assets. The result leads us to reject the null hypothesis and accept its alternative  $H_{B1}$ : There is a relationship between disclosure quality and ROA.

**Table (12): Results of (GMM) to measure the relationship between disclosure quality and ROA**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
ROA(-1)	0.013214	3.73E-05	<b>354.5699**</b>	<b>0.0000</b>
DQ	-5.81E-10	2.91E-12	<b>-199.59**</b>	<b>0.0000</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	-0.00035	<b>S.D. dependent var</b>	0.066098	
<b>S.E. of regression</b>	0.070783	<b>Sum squared resid</b>	1.88384	
<b>J-statistic</b>	<b>191.9349</b>	<b>Instrument rank</b>	49	
<b>Prob (J-statistic)</b>	<b>0.000</b>			

**\*\* Significant at 1%**

H<sub>B2</sub>: There is a relationship between disclosure quality and return on equity (ROE).

Table 13 presents the results the test of the relationship between disclosure quality and firm performance (ROE). The test is conducted via GMM. The test is conducted at first difference by entering dependent variable ROE as instrumental variable. The results indicated a negative significant relationship between the two variables. This means that disclosure quality influences return on equity (ROE) negatively. This result is inconsistent with (Chi, 2009). The result leads us to reject the null hypothesis and accept the alternative one H<sub>B2</sub>: There is a relationship between disclosure quality and ROE.

**Table (13): Results of (GMM) to measure the relationship between disclosure quality and ROE**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
ROE(-1)	-0.29287	1.24E-05	<b>-23626.4**</b>	<b>0.0000</b>
DQ	-1.77E-09	1.11E-11	<b>-159.549**</b>	<b>0.0000</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	-0.00281	<b>S.D. dependent var</b>	0.180639	
<b>S.E. of regression</b>	0.153796	<b>Sum squared resid</b>	8.893562	
<b>J-statistic</b>	<b>46.4835</b>	<b>Instrument rank</b>	48	
<b>Prob (J-statistic)</b>	<b>0.452341</b>			

\*\* Significant at 1%

H<sub>B3</sub>: There is a relationship between disclosure quality and firm market value.

Table 14 demonstrates the results of testing the relationship between disclosure quality and firm performance (FMV) via (GMM). The test is conducted at first difference by entering the dependent variable FMV as instrumental variable. The results indicated a positive significant relationship between the two variables. This means that disclosure quality influences the firm market value positively. When disclosure quality increases firm market value will increase. This result is in agreement with Gelb and Zarowin (2000) and Mohamadi (2016). This leads to the rejection of the null hypothesis and acceptance of its alternative H<sub>B3</sub>: There is a relationship between disclosure quality and firm market value.

**Table (14): Results of (GMM) to measure the relationship between disclosure quality and firm market value**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
TQ(-1)	0.189977	1.48E-05	<b>12827.68**</b>	<b>0.0000</b>
DQ	1.442967	9.05E-05	<b>15944.6**</b>	<b>0.0000</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	125813.8	<b>S.D. dependent var</b>	22257490	
<b>S.E. of regression</b>	41986485	<b>Sum squared resid</b>	6.63E+17	
<b>J-statistic</b>	<b>43.94728</b>	<b>Instrument rank</b>	46	
<b>Prob (J-statistic)</b>	<b>0.473877</b>			

\*\* significant at 1%

H<sub>B4</sub>: There is a relationship between disclosure quality and firms Revenues.

Table 15 shows the results of testing the relationship between disclosure quality and firm performance revenues (RV) by (GMM). The test is conducted at first difference by entering the dependent variable RV as the instrumental variable. The results indicate a negative significant relationship between the two variables. This means that disclosure qualities influence the firm revenues negatively. When disclosure quality increases, the revenue of the firm will decrease. This finding is the opposite of Lang and Lundholm (1996) and Chi (2009). This result leads to the rejection the null hypothesis and acceptance of its alternative H<sub>B4</sub>: There is a negative relationship between disclosure quality and firms' revenues.

**Table (15): Results of (GMM) to measure the relationship between disclosure quality and firms revenues (RV)**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
RV(-1)	0.557241	8.82E-06	<b>63183.6**</b>	<b>0.0000</b>
DQ	-0.76999	4.74E-05	<b>-16260**</b>	<b>0.0000</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	1942847	<b>S.D. dependent var</b>	13393705	
<b>S.E. of regression</b>	16332599	<b>Sum squared resid</b>	1.00E+17	
<b>J-statistic</b>	<b>45.149</b>	<b>Instrument rank</b>	46	
<b>Prob (J-statistic)</b>	<b>0.423705</b>			

**\*\* Significant at 1%**

H<sub>B5</sub>: There is a relationship between disclosure quality and firms net income.

Table 16 shows the result of the GMM test on the relationship between disclosure quality and firm performance net income (NI). The test is conducted at first difference by entering the dependent variable NI as instrumental variable. The result indicates a positive significant relationship between the two variables. This suggests that disclosure quality influences the firms' net income (NI) positively. When the disclosure quality increases, the net income will also increase. This finding is supported by Gelb and Zarowin (2000) and Lang and Lundholm (1996). The results lead to the rejection of the null hypothesis and acceptance of its alternative H<sub>B5</sub>: There is a relationship between disclosure quality and firms net income.

**Table (16): Results of (GMM) to measure the relationship between disclosure quality and firms net income (NI)**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
NI(-1)	0.076972	6.60E-07	<b>116642.1**</b>	<b>0.0000</b>
DQ	0.299841	1.09E-05	<b>27465.92**</b>	<b>0.0000</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	195383.2	<b>S.D. dependent var</b>	3172156	
<b>S.E. of regression</b>	3636594	<b>Sum squared resid</b>	4.97E+15	
<b>J-statistic</b>	<b>46.50597</b>	<b>Instrument rank</b>	47	
<b>Prob (J-statistic)</b>	<b>0.41015</b>			

\*\* Significant at 1%

H<sub>B6</sub>: There is a relationship between disclosure quality and firms liquidity ratio.

Table 17 shows the results of testing the relationship between disclosure quality and firm performance liquidity ratio via GMM. The test is conducted at first difference by entering the dependent variable liquidity ratio as instrumental variable. The results indicated a positive significant relationship between the two variables. This means that disclosure quality influences the firm's liquidity ratio (LQ) positively. When the disclosure quality increases the liquidity ratio will also increase. The result leads to the rejection of the null hypothesis and acceptance of its alternative H<sub>B6</sub>: There is a relationship between disclosure quality and firms liquidity ratio.

**Table (17): Results of (GMM) to measure the relationship between disclosure quality and firms liquidity ratio (LQ)**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
LQ(-1)	0.237525	0.000117	<b>2028.005**</b>	<b>0.0000</b>
DQ	2.63E-07	1.26E-09	<b>207.7112**</b>	<b>0.0000</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	-0.00117	<b>S.D. dependent var</b>	3.207726	
<b>S.E. of regression</b>	4.121154	<b>Sum squared resid</b>	6385.951	
<b>J-statistic</b>	<b>46.14281</b>	<b>Instrument rank</b>	48	
<b>Prob (J-statistic)</b>	<b>0.466356</b>			

**\*\* Significant at 1%**

#### **4.5.3 Group (C) Hypotheses: The relationship between corporate governance mechanisms and firm performance**

This hypothesis was tested by using the generalized method of moment (GMM) at the first difference through entering the dependent variables of the firm performance as instrumental variable for each hypothesis, and also stepwise method was used to investigate the variables that have an influence on firm performance and to exclude others which have no impact. The hypothesis below is tested;

$H_{C1}$ : There is a relationship between corporate governance mechanisms and return on assets (ROA).

Table 18 shows the results of testing the relationship between corporate governance mechanisms and firm performance (ROA) by means of GMM. The test is done at first difference by entering the dependent variable ROA as instrumental variable. The result indicates a significant

relationship between corporate governance mechanisms and ROA. The result for board size (BOS) indicated a negative significant relationship between the two variables. This means that the number of board members influences the return on assets (ROA) negatively. When the number of board members increases, ROA will decrease as discussed by Haniffa and Hudaib(2006). The results for board ownership (BO) indicated a negative significant relationship between the two variables. This suggests that the number of shares owned by board members influences the return on assets (ROA) negatively. When the shares owned by members of the board increase, ROA will decrease. This finding supports Amba (2013). The results for board compensations (BC) indicated a negative insignificant relationship between the two variables. This signifies that the compensations of board members does not influence the return on assets (ROA) as detailed by Haniffa and Hudaib (2006). The results for role duality (RD) indicated a positive significant relationship between the two variables. This means that when the position of the chairman and CEO is separated, this will influence the return on assets (ROA) positively and ROA will increase. This result is inconsistent with Sanda *et al.* (2003). The results for the number of board meetings (NOM) indicate a negative significant relationship between the two variables. This means that the number of board meetings influences the return on assets (ROA) negatively, *i.e.* when the number of meetings increases, ROA will decrease. This result contradicts Vafeas (1999). The result for audit committee size (ACS) indicates a positive significant relationship between the two

variables. This means that the number of audit committee affects the return on assets (ROA) positively, *i.e.* when the number of audit committee increases, ROA will increase. This result is in line with Coleman (2007). Given the above results, it can articulate that all variables of corporate governance mechanisms are correlated with the firm performance (ROA) except for variable board compensation (BC). According to the stepwise analysis as shown from table 19 only (RD) has a negative impact on (ROA) while other variables have no impact. The results lead to the rejection of the null hypothesis and acceptance of its alternative  $H_{C1}$ : There is a relationship between corporate governance mechanisms and ROA.

**Table (18): Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and ROA**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
ROA(-1)	0.027546	0.0183	1.505224	0.1337
BOS	-0.01136	0.001848	<b>-6.14707**</b>	<b>0.0000</b>
BO	-0.05196	0.015796	<b>-3.28976**</b>	<b>0.0012</b>
BC	-2.22E-08	1.60E-08	-1.39083	0.1656
RD	0.013781	0.003718	<b>3.706575**</b>	<b>0.0003</b>
NOM	-0.00317	0.001258	<b>-2.51875*</b>	<b>0.0125</b>
ACS	0.017079	0.007807	<b>2.187562*</b>	<b>0.0297</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	0.000192	<b>S.D. dependent var</b>	0.031979	
<b>S.E. of regression</b>	0.046542	<b>Sum squared resid</b>	0.493884	
<b>J-statistic</b>	<b>27.92618</b>	<b>Instrument rank</b>	33	
<b>Prob (J-statistic)</b>	<b>0.311263</b>			

\*, \*\* significant at 5% and 1% respectively

**Table (19): Stepwise Regression Analysis Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.053	.006		8.947	.000
	RD	-.030	.007	-.231	-4.073	.000

a. Dependent Variable: ROA

H<sub>C2</sub>: There is a relationship between corporate governance mechanisms and return on equity (ROE).

Table 20 shows the results of testing the relationship between corporate governance mechanisms and firm performance (ROE) via (GMM). The test is conducted at first difference by entering the dependent variable ROE as instrumental variable. The result indicates a significant relationship between corporate governance mechanisms and ROE. For the coefficient of board size (BOS), the result indicates a negative insignificant relationship between the two variables. This means that the number of board members does not influence the return on equity (ROE), this result contradicts Haniffa and Hudaib (2006). The result for board ownership (BO) indicates a positive insignificant relationship between the two variables. This means that the number of shares owned by board members does not influence the return on equity (ROE) as found by Salim *et al.* (2014). The result for board compensations (BC) indicates a negative insignificant relationship between the two variables. This means that the compensations of board members do not affect the return on equity (ROE) as deliberated by Haniffa and Hudaib (2006). The results for role duality (RD) indicate a positive insignificant relationship between both variables.

This means that whether the position of the chairman and CEO is separated or not, will not influence the return on equity (ROE). This result is inconsistent with Haniffa and Hudaib (2006). The result for the number of board meetings (NOM) indicates a positive significant relationship between the two variables. This means that the number of board meetings influence the return on equity (ROE) positively. When the number of board meetings increases, ROE will increase as argued by Vafeas (1999). The result for audit committee size (ACS) indicates a positive significant relationship between the two variables. This means that the number of audit committee influences the return on equity (ROE) positively, *i.e.* when the members of audit committee increase in number, ROE will increase as established by Amer, Ragab and Shehata (2014). Depending on the results above, it can be said that only two corporate governance mechanisms (*i.e.* NOM and ACS) are correlated with the firm performance (ROE) significantly. For stepwise regression in table 21 presents that (RD) and (BC) have a negative impact on (ROE). The results lead to the rejection of the null hypothesis and acceptance of its alternative  $H_{C2}$ : There is a relationship between corporate governance mechanisms and ROE.

**Table (20): Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and ROE**

Variables	Coefficient	Std. Error	t-Statistic	Prob.
ROE(-1)	-0.57221	0.009523	<b>-60.0869**</b>	<b>0.0000</b>
BOS	-0.01503	0.023073	-0.65146	0.5154
BO	0.056421	0.25783	0.218832	0.827
BC	-2.36E-07	1.56E-07	-1.50877	0.1327
RD	0.019641	0.069792	0.281428	0.7786
NOM	0.056595	0.025356	<b>2.232032*</b>	<b>0.0266</b>
ACS	0.073319	0.037279	<b>1.966767*</b>	<b>0.0504</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	-0.001	<b>S.D. dependent var</b>	0.198247	
<b>S.E. of regression</b>	0.163312	<b>Sum squared resid</b>	6.080958	
<b>J-statistic</b>	<b>23.26676</b>	<b>Instrument rank</b>	33	
<b>Prob (J-statistic)</b>	<b>0.561989</b>			

\*, \*\* significant at 5% and 1% respectively

**Table (21): Stepwise Regression Analysis Coefficients<sup>b</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.116	.014		8.537	.000
	RD	-.069	.017	-.234	-4.116	.000
2	(Constant)	.094	.016		6.004	.000
	RD	-.058	.017	-.197	-3.415	.001
	BC	1.027E-007	.000	.156	2.695	.007
b. Dependent Variable: ROE						

H<sub>C3</sub>: There is a relationship between corporate governance mechanisms and firms' revenues (RV).

Table 22 shows the results of testing the relationship between corporate governance mechanisms and firm performance revenues (RV) using (GMM). The test is conducted at first difference by entering the dependent variable revenues as instrumental variable. The finding

indicates a significant relationship between corporate governance mechanisms and RV. The result for board size (BOS) indicates a positive significant relationship between the two variables. This suggests, that the number of board members influences firm revenues (RV) positively, *i.e.* when the number of board members increases, the revenue of the firm will increase as argued by Dwivedi and Jain (2005). The result for board ownership (BO) indicates a positive significant relationship between the two variables. This means that the number of shares owned by board members influences firm revenues (RV) positively. When the numbers of shares owned by board members increases revenue will increase as documented by Dwivedi and Jain (2005). The result for board compensations (BC) indicates a positive significant relationship between the two variables. This means that the compensations of board members influence firm revenues (RV) positively, *i.e.* when the compensations of board members increase the revenues will increase. This finding is similar with Vo & Phan (2013). The result for role duality (RD) indicates a positive significant relationship between the two variables. This means that when the position of the chairman and CEO are separated, it influence the firm revenues (RV) positively. This result contradicts Sanda *et al.* (2003). The result for the number of board meetings (NOM) indicates a positive significant relationship between the two variables. This means that the number of board meeting influences firm revenues (RV) positively. When the number of board meetings increases, revenues will increase. This is similar to Vafeas (1999). The result for audit committee size (ACS)

indicates a negative significant relationship between the two variables. This means that the number of audit committee members influences firm revenues (RV) negatively, *i.e.* when the members of audit committee increase in number, revenues will decrease as argued by Marn and Romuald (2012). Based on the findings above, it can say that all corporate governance mechanisms are correlated with the firm revenues significantly. As resulted from stepwise analysis in table 23 (BC) and (BOS) influence (RV) positively while (RD) influences (RV) negatively. The results lead to the rejection of the null hypothesis and acceptance of the alternative hypothesis  $H_{C3}$ : There is a relationship between corporate governance mechanisms and firms revenues (RV).

**Table (22): Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and firms revenues**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
<b>RV(-1)</b>	0.357364	0.001433	249.301**	<b>0.0000</b>
<b>BOS</b>	1956013	92270.67	21.19865**	<b>0.0000</b>
<b>BO</b>	46207279	1714117	26.9569**	<b>0.0000</b>
<b>BC</b>	119.7566	1.201606	99.66375**	<b>0.0000</b>
<b>RD</b>	24413569	122995.9	198.491**	<b>0.0000</b>
<b>NOM</b>	5129077	111454.8	46.01933**	<b>0.0000</b>
<b>ACS</b>	-2E+07	518369.4	-39.4855**	<b>0.0000</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	2818089	<b>S.D. dependent var</b>	16503168	
<b>S.E. of regression</b>	22398306	<b>Sum squared resid</b>	1.14E+17	
<b>J-statistic</b>	<b>25.10159</b>	<b>Instrument rank</b>	33	
<b>Prob (J-statistic)</b>	<b>0.456692</b>			

\*\* significant at 1%

**Table (23): Stepwise Regression Analysis Coefficients<sup>c</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	21510557.764	5526336.440		3.892	.000
	BC	116.776	21.636	.301	5.397	.000
2	(Constant)	43166627.460	9007815.757		4.792	.000
	BC	101.287	21.950	.261	4.614	.000
	RD	-29561768.814	9788886.343	-.171	-3.020	.003
3	(Constant)	-24442798.617	23176708.326		-1.055	.292
	BC	81.101	22.546	.209	3.597	.000
	RD	-33963949.858	9742163.089	-.196	-3.486	.001
	BOS	8066535.920	2554582.497	.179	3.158	.002
4	(Constant)	48129075.193	34218428.819		1.407	.161
	BC	105.340	23.838	.271	4.419	.000
	RD	-35528086.448	9640311.829	-.205	-3.685	.000
	BOS	8549507.254	2529454.110	.189	3.380	.001
	ACS	-25406006.477	8902062.312	-.167	-2.854	.005

c. Dependent Variable: RV

H<sub>C4</sub>: There is a relationship between corporate governance mechanisms and net income (NI).

Table 24 shows the results of test on the relationship between corporate governance mechanisms and firm performance (NI) by (GMM). The test is conducted at first difference by entering the dependent variable NI as instrumental variable. The statistics indicate a significant relationship between corporate governance mechanisms and NI. The result for board size (BOS) indicates a negative significant relationship between the two variables. This means that the number of board members influences the net income (NI) negatively, *i.e.* when the number of board members increases, net income will decrease as discussed by Abdullah (2004). The result for board ownership (BO) indicates a positive significant relationship

between the two variables. This means that the number of shares owned by board members influence net income (NI) positively. In other words, when the number of shares owned by board members increases, net income will increase as argued by Dwivedi and Jain (2005). The result for board compensations (BC) indicates a positive significant relationship between the two variables. The compensations of board members influence the net income (NI) positively. When the compensations of board members increase, net income will increase. This result does not concur with Core, Guay and Rusticus (2006). The result for role duality (RD) indicates a negative significant relationship between the two variables. This denotes that when the position of the chairman and CEO are the same, it will influence net income (NI) negatively similar to Abdullah (2004). The result for the number of board meetings (NOM) indicates a negative significant relationship between the two variables. This suggests that the number of board meetings influences net income (NI) negatively. When the number of board meetings increases, net income decreases. This result contradicts with Vafeas (1999). The number of audit committee members influences net income (NI) negatively, *i.e.* when the number of audit committee members increases, The result for audit committee size (ACS) indicates a negative significant relationship between the two variables. net income will decrease. This result is inconsistent with Coleman (2007). Given the results above, it can be determined that all variables of corporate governance mechanisms are correlated with the firm performance (NI) significantly. From table 25 it presents that (ACS) and (RD) have a negative impact on

(NI), while (BOS) has a positive impact, whereas other variables have no impact. These results lead the rejection of the null hypothesis and acceptance of the alternative  $H_{C4}$ : There is a relationship between corporate governance mechanisms and net income (NI).

**Table (24): Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and net income (NI)**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
<b>NI(-1)</b>	0.128354	0.000727	<b>176.6193**</b>	<b>0.0000</b>
<b>BOS</b>	-1294341	13185.21	<b>-98.1662**</b>	<b>0.0000</b>
<b>BO</b>	26930304	447205.6	<b>60.21907**</b>	<b>0.0000</b>
<b>BC</b>	15.17485	0.097401	<b>155.7973**</b>	<b>0.0000</b>
<b>RD</b>	-5135864	58251.35	<b>-88.1673**</b>	<b>0.0000</b>
<b>NOM</b>	-448368.2	24276.65	<b>-18.4691**</b>	<b>0.0000</b>
<b>ACS</b>	-468347.2	52480.85	<b>-8.92415**</b>	<b>0.0000</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	302567.7	<b>S.D. dependent var</b>	3722721	
<b>S.E. of regression</b>	5578384	<b>Sum squared resid</b>	7.09E+15	
<b>J-statistic</b>	<b>27.02956</b>	<b>Instrument rank</b>	34	
<b>Prob (J-statistic)</b>	<b>0.407784</b>			

\*\* significant at 1%

**Table (25): Stepwise Regression Analysis Coefficients<sup>d</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1740936.584	1165284.366		1.494	.136
	BC	39.905	4.562	.455	8.747	.000
2	(Constant)	20712223.340	5821291.447		3.558	.000
	BC	46.456	4.900	.530	9.481	.000
	ACS	-6369801.987	1916322.094	-.186	-3.324	.001
3	(Constant)	8163327.957	7211492.395		1.132	.259
	BC	43.378	4.956	.495	8.753	.000
	ACS	-6694057.438	1896109.498	-.195	-3.530	.000
	BOS	1539031.294	533827.375	.151	2.883	.004
	(Constant)	10464927.139	7260913.825		1.441	.151
4	BC	41.062	5.058	.468	8.118	.000
	ACS	-6913060.826	1888956.026	-.202	-3.660	.000
	BOS	1699227.929	536732.660	.167	3.166	.002
	RD	-4171703.818	2045607.465	-.107	-2.039	.042

d. Dependent Variable: NI

H<sub>C5</sub>: There is a relationship between corporate governance mechanisms and liquidity ratio (LQ).

Table 26 shows the results of the test on the relationship between corporate governance mechanisms and firm performance (LQ) via (GMM). The test is conducted at first difference by entering the dependent variable LQ as instrumental variable. The statistics indicate a significant relationship between corporate governance mechanisms and LQ. The result for board size (BOS) indicates a positive significant relationship between the two variables. This means that the number of board members influences liquidity ratio (LQ) positively, *i.e.* when the number of board members increases, the liquidity ratio will also increase. The result for board

ownership (BO) indicates a negative significant relationship between the two variables. This suggests that the number of shares owned by board members influences the liquidity ratio (LQ) negatively. In other words, when the number of shares owned by board members increases, the liquidity ratio will decrease. The result for board compensations (BC) exhibits a positive significant relationship between the two variables. The compensations of board members influence the liquidity ratio (LQ) positively, *i.e.* when the compensations of board members increase, the liquidity ratio will also increase. The result for role duality (RD) shows a positive significant relationship between the two variables. When the position of the chairman and CEO are separated, it influences the liquidity ratio (LQ) positively. The result for the number of board meetings (NOM) indicates a negative significant relationship between the two variables. This means that the number of board meetings influences the liquidity ratio (LQ) negatively, *i.e.* when the number of board meetings increases, the liquidity ratio will decrease. The result for audit committee size (ACS) indicates a positive insignificant relationship between the two variables; the number of audit committee does not influence the liquidity ratio (LQ). Liquidity ratio is an important aspect for firm's continuity and in its operations. Liquidity is important in order to be able meet current liabilities as they become due. Several studies, such as, (Ozkan, 2001; Sheikh & Wang, 2011; Viviani, 2008) investigated variables that affect liquidity ratio, such as, tax shield, firm size, interest rate, stock price level and growth ratio. Few studies investigated the impact of corporate governance mechanisms on liquidity

ratio. This thesis contributes to the literature by explaining the impact of corporate governance mechanisms on liquidity ratio. Given the results above, it can be said that all variables of corporate governance mechanisms are correlated with firm performance (LQ) significantly except for audit committee size (ACS). For stepwise analysis as explained in table 27 it presents that only (BOS) has a negative impact on (LQ), while other variables have no influence. The results lead to the rejection of the null hypothesis and acceptance of the alternative  $H_{C5}$ : There is a relationship between corporate governance mechanisms and liquidity ratio (LQ).

**Table (26): Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and liquidity ratio (LQ)**

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
<b>LQ(-1)</b>	-0.084643	0.020759	<b>-4.07733**</b>	<b>0.0001</b>
<b>BOS</b>	0.141789	0.042683	<b>3.32193**</b>	<b>0.0010</b>
<b>BO</b>	-5.587317	1.037345	<b>-5.38617**</b>	<b>0.0000</b>
<b>BC</b>	3.73E-06	6.04E-07	<b>6.176376**</b>	<b>0.0000</b>
<b>RD</b>	0.989848	0.208831	<b>4.739951**</b>	<b>0.0000</b>
<b>NOM</b>	-1.151829	0.058957	<b>-19.5366**</b>	<b>0.0000</b>
<b>ACS</b>	0.127774	0.195257	0.654392	0.5135
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	-0.008932	<b>S.D. dependent var</b>	1.17336	
<b>S.E. of regression</b>	2.317123	<b>Sum squared resid</b>	1224.146	
<b>J-statistic</b>	<b>26.07304</b>	<b>Instrument rank</b>	34	
<b>Prob (J-statistic)</b>	<b>0.459096</b>			

\*\* Significant at 1%

**Table (27): Stepwise Regression Analysis Coefficients<sup>e</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.025	.807		6.223	.000
	BOS	-.305	.087	-.200	-3.502	.001

e. Dependent Variable: LQ

H<sub>C6</sub>: There is a relationship between corporate governance mechanisms and firm market value (FMV).

Table 28 shows the results of the test on the relationship between corporate governance mechanisms and firm performance (FMV) using (GMM). The test is conducted at first difference by entering the dependent variable FMV as instrumental variable. According to the test statistics, the model is fit and indicates a significant relationship between corporate governance mechanisms and FMV. The result for board size (BOS) indicates a negative significant relationship between the two variables. This suggests that the number of board members influences the firm market value negatively, *i.e.* when the number of board members increases, the firm's firm market value will decrease as established by Haniffa and Hudaib (2006). The result for board ownership (BO) indicates a positive significant relationship between the two variables. This denotes that the number of shares owned by board members influences the firm market value (FMV) positively, *i.e.* when the number of shares owned by board members increases, market value will increase as discussed by Salim *et al.* (2014). The result for board compensations (BC) suggests a significant

negative relationship between the two variables. This means that the compensations of board members influence the market value (FMV) negatively. When the compensations of board members increase, the market value will decrease. This result is in line with Haniffa and Hudaib (2006). The result for role duality (RD) indicates a positive significant relationship between the two variables. What this means, is that, when the position of the chairman and CEO are separated, it influences the firm market value (FMV) positively. This result is consistent with Sanda *et al.* (2003). The result for board meetings (NOM) indicates a positive significant relationship between the two variables. In other words, the number of board meetings influences the market value (FMV) positively; when the number of board meetings increases, the market value will increase. This result contradicts Vafeas (1999). The result for audit committee size (ACS) indicates a negative significant relationship between the two variables. This connotes that the number of audit committee influences the market value (FMV) negatively. When the number of audit committee members increases, the market value will decrease as discussed by Amer *et al.* (2014). Given the results above, it can be said that all variables of corporate governance mechanisms are correlated with the firm performance (FMV) significantly. Regarding to the stepwise analysis as shown from table 29 it clearly that (BC) and (BOS) have a positive impact on (FMV), while (ACS) has a negative impact, whereas other variables have no impact. The results lead to the rejection of the null hypothesis and

acceptance of the alternative  $H_{C6}$ : There is a relationship between corporate governance mechanisms and market value (FMV).

**Table (28): Results of (GMM) to measure the relationship between corporate governance mechanisms firm performance and market value (FMV)**

Variables	Coefficient	Std. Error	t-Statistic	Prob.
FMV(-1)	0.166977	0.000669	249.4882**	<b>0.0000</b>
BOS	-12244157	44994.89	-272.123**	<b>0.0000</b>
BO	1.31E+08	3471187	37.76832**	<b>0.0000</b>
BC	-38.9224	0.571215	-68.1397**	<b>0.0000</b>
RD	9615742	208484.2	46.12215**	<b>0.0000</b>
NOM	9387542	416677.7	22.5295**	<b>0.0000</b>
ACS	-30168703	131206.8	-229.932**	<b>0.0000</b>
<b>Effects Specification</b>		<b>Cross-section fixed (first differences)</b>		
<b>Mean dependent var</b>	164416.3	<b>S.D. dependent var</b>	27955673	
<b>S.E. of regression</b>	57920261	<b>Sum squared resid</b>	7.65E+17	
<b>J-statistic</b>	22.70235	<b>Instrument rank</b>	33	
<b>Prob (J-statistic)</b>	0.594939			

\*\* Significant at 1%

**Table (29): Stepwise Regression Analysis Coefficients<sup>f</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	38577220.198	12238358.344		3.152	.002
	BC	387.570	47.915	.427	8.089	.000
2	(Constant)	192704625.718	61600693.164		3.128	.002
	BC	440.791	51.850	.486	8.501	.000
	ACS	-51749839.986	20278450.307	-.146	-2.552	.011
3	(Constant)	84556974.118	76677850.916		1.103	.271
	BC	414.267	52.695	.457	7.862	.000
	ACS	-54544306.308	20160820.177	-.154	-2.705	.007
	BOS	13263527.596	5676042.299	.126	2.337	.020

f. Dependent Variable: FMV

**Chapter Five**  
**Summary and Conclusions**

## **Chapter Five**

### **Summary and Conclusions**

#### **5.1 Introduction**

As discussed in chapter 1, this thesis is primarily motivated to investigate the relationship between corporate governance mechanisms and firm performance through the mediating effect of disclosure quality. The data selected for this study are the listed companies in PEX covering the period from 2005 to 2016. There is a scarcity of prior literature concerning corporate governance mechanisms and firm's performance in the MENA countries, especially in Palestine (Hasan, Kobeissi, & Song, 2011; Piesse, Strange, & Toonsi, 2012).

Good corporate governance mechanisms could assist owners and managers in building a confident relationship with each other in order to develop company's performance (Almatari, Alswidi, & Fadzil, 2012). Corporate governance mechanisms should improve the quality of the financial reports and firms disclosure (Beest *et al.*, 2009). The main aim of this study is to fill the gap above and explain the effects of corporate governance mechanisms and the disclosure quality on firm's performance.

The rest of this chapter is as follows; the first section provides summary for each chapter of this thesis, while the second section provides summary for the corporate governance mechanisms. The third section provides the implications of the study, the fourth section summarizes the limitations of the study, the fifth section discusses the recommendations for

future research and the last section summarizes the conclusion of this theses.

## **5.2 Theses review**

The nature of this thesis was introduced in chapter 1, which covered the introduction of the study, problem statement, research questions, objectives and the contribution of the study.

In chapter 2 the researcher discussed the literature review. This chapter includes several sections. The first section contains the definitions of corporate governance. The next section includes the theoretical perspectives. In the third section the researcher discusses the relationship between corporate governance mechanisms and firms performance and in the fourth section discusses the relationship between corporate governance mechanisms and disclosure quality. In the fifth section the researcher studied the relationship between disclosure quality and firms performance. The sixth section includes the hypotheses developed and in the last section the researcher discussed the research framework.

Chapter 3 discussed the methodology used in this study, which is a quantitative research one. In this chapter the researcher discussed the study population and the source of data, variables definitions including independent, mediator and dependant variables, the analytical procedure used in this study and the research models.

Chapter 4 presented the results of the data collected. In this chapter, the researcher presented the descriptive statistics for the variables, which includes, frequencies, maximum, minimum, means, standard deviation, skewness and kurtosis. In addition, the researcher presented the correlation between these variables. In this chapter, the researcher tested the hypotheses which were developed in the previous chapter.

### **5.3 corporate governance mechanisms**

This section discusses the corporate governance mechanisms based on the secondary data for the listed companies in PEX. These mechanisms include: board size, CEO duality, board ownership, board compensations, number of board meetings and audit committee size.

#### **Board size**

Board size was measured by the number of board directors members in listed companies as described in chapter 3. The results of this study are as following; board size has positive impact on disclosure quality, firms liquidity and revenues. On the other hand, it has a negative impact on ROA, ROE, Tobin's Q and net income.

#### **CEO duality**

The pursuit of separating leadership roles is getting more attention in listed companies in the PEX. The leadership structure was measured

according to whether the roles of the chairman and the CEO were separated in the listed companies or not.

The CEO is responsible for supervising the company's operations, providing leadership, communicating to the shareholders, and preparing strategies, plans and objectives. In contrast, the chairman reviews the board, examines activities and stimulates and supports them. This study found that CEO duality has negative impact on disclosure quality, but has a positive impact on ROA, Tobin's Q, firms liquidity and revenues. It also has a negative impact on net income.

### **Number of board meetings**

The results show that the number of board meetings does not affect the disclosure quality. The researcher found the number of board meetings has positive impact on ROE, Tobin's Q and revenues. However, it has a negative effect on ROA, firms liquidity and net income.

### **Board Ownership**

Board ownership represents the percentage of shares owned by the board members from the total share of the company. The results of the study show that board ownership affects disclosure quality positively. Board ownership affects ROE, revenues, Tobin's Q and net income positively. Whereas, it has a negative impact on ROA and firms' liquidity.

**Audit committee size**

Audit committee size is the number of the audit committee members. The result of the study finds that audit committee size has a negative impact on disclosure quality. It shows that audit committee size has positive influence on ROA and ROE, but has negative influence on Tobin's Q, revenues and net income.

**Board compensations**

Board compensations were measured by the amount of money given to the board members to inspire them to run the firm. Based on this research, the researcher found that board compensations negatively impact the disclosure quality, but positively affect firms liquidity, revenues and net income. However, it has a negative influence for Tobin's Q.

**5.4 Implication of the study**

The aims of the study are to investigate the influence of corporate governance mechanisms on firms performance through the mediating effect of disclosure quality. The implications of this study are divided into theoretical and practical implications. According to the theoretical implications, this study will assist to fill the gap in the literature related to the corporate governance mechanisms in Palestine. Indeed, this examination will not only contribute to knowledge in Palestine and the Middle East as a whole, but also other developing countries could benefit from this study.

The study contributed to the theory by developing a corporate governance model that can fill the gap in the literature particularly in Palestine. The study provides comprehensive investigations. First, it examines the impact of corporate governance mechanisms and disclosure quality. Secondly, it investigates the influence of disclosure quality on firm's performance and finally, it investigates the relationship between corporate governance mechanisms and firms performance.

According to the practical implications, this study has a significant contribution by developing a corporate governance framework that is suitable for Middle East countries, especially Palestine. The researcher developed a useful model that can be used to facilitate understanding the impact of corporate governance in Palestine or other Arab country. Moreover, the study provides a clear view and understanding of the issues related to the corporate governance mechanisms for stakeholders including policymakers, regulators, academics, and it will be capable to enhance the Palestine Code of Corporate Governance, and also the companies listed in Palestine Exchange will benefit from the results of this study.

### **5.5 Limitation of the study**

The results of the study support extended evidence relating to the corporate governance mechanisms and their positive impact on the firm performance. However, several limitations that should be taken into consideration when drawing the conclusions. First, the population of this

study does not represent all companies in Palestine because the Code of Corporate Governance includes only the companies listed in Palestine Exchange. As a result, this study did not examine the impact of corporate governance mechanisms for non listed companies in Palestine. Finally, not all stakeholders categories as small investors, academics, government and regulators are covered in this study.

## **5.6 Conclusion**

This study has achieved its main objectives, and it has been also able to answer all of the research questions. Specifically, the study has extensively examined corporate governance mechanisms in the PEX covering the period from 2005 to 2016. Essentially, this study examined the influence of corporate governance mechanisms on firm performance through the mediating effect of disclosure quality.

There are a few of studies that examined corporate governance mechanisms in the Middle East North Africa region and other developing countries. Therefore, this study will contribute to the literature on corporate governance mechanisms from the perspective of an emerging economy. It is hoped that this study will also enhance the corporate governance in Palestine.

The researcher developed 3 groups of the hypotheses. The first one examines the relationship between corporate governance mechanisms and disclosure quality. The second one explores the relationship between

disclosure quality and firm performance. The last group assesses the relationship between corporate governance mechanisms and firm performance. Due to the fact that the Palestinian economy is an emerging economy and there is no mandatory rule for corporate governance mechanisms the results were mixed. Each group of hypotheses has several variables and the results vary amongst having positive, negative and no effect.

These findings assist to establish a starting point for empirically exploring the importance of corporate governance mechanisms in Palestine, the area which has received little attention to date. The contradicting results in this study suggest the need for more theoretical thoughts about governance mechanisms and firm performance in developing countries.

### **5.7 Recommendations for future research**

This study gives an extensive contribution to the literature related to the corporate governance mechanisms in Palestine and the impact of corporate governance mechanisms on the firm performance for the listed companies. However, this study has not covered a significant amount of empirical research, which could be useful for further study in Palestine and other developing countries. Thus, there are many ways that can extend the research study as a whole.

One probable way for future research is to investigate external stakeholders perceptions regarding corporate governance mechanisms in

developing countries as Palestine and Middle East North Africa region. These stakeholders include small investors, academics, government and regulators. In addition, it is important to examine the role of corporate governance mechanisms in non listed companies not only concentrating on listed companies in Palestine Exchange. Therefore, the future research could also make a comparison between the influences of corporate governance mechanisms on listed and non- listed companies in Palestine.

## References

- Abadi, A. C. K., & Janani, M. H. (2013). *The Role of Disclosure Quality in Financial Reporting*. In (Vol. 2, pp. 439-443): **European Online Journal of Natural and Social Sciences**.
- Abbott, L. J., Parker, S., & Peters, G. F. (2004). *Audit Committee Characteristics and Restatement*. In (Vol. 23, pp. 69-87): **Journal of Practice and theory**.
- Abdelkarim, N., & Alawneh, S. (2009). *The Relationship Between Corporate Governance and the Performance of Palestinian Firms: An Empirical study*. In (Vol. 3, pp. 105-120): **The international Journal of Business and Finance Research**.
- Abdullah, H., & Valentine, B. (2009). *Fundamental and Ethics Theories of Corporate Governance*. In (Vol. 4, pp. 88-96): **Middle Eastern Finance and Economics**.
- Abdullah, S. N. (2004). *Board Composition, CEO Duality and Performance Among Malaysian Listed Companies*. In (Vol. 4, pp. 47-61): **The International Journal of Business in Society**.
- Abidin, Z. Z. (2009). *Board Structure and Corporate Performance in Malaysia*. In (Vol. 1, pp. 150-164): **International Journal of Economics and Finance**.

- Aggarwal, P. (2013). *Impact of Corporate Governance on Corporate Financial Performance*. In (Vol. 13, pp. 1-5): **Journal of Business and Management**.
- Akbar, S., Poletti-Hughes, J., El-Faitouri, R., & Shah, S. Z. A. (2016). *More on the relationship between corporate governance and firm performance in the UK: Evidence from the application of generalized method of moments estimation*. In (Vol. 38, pp. 417-429): **Research in International Business and Finance**.
- Aksu, M., & Kosedage, A. (2005). *The Relationship Between Transparency & Disclosure and Firm Performance in the ISE: Does IFRS Adoption Make Difference*. In (Vol. 33, pp. 1-33): **Journal of Accounting and economics**.
- Al-Ghamdi, M., & Rhodes, M. (2015). *Family Ownership, Corporate Governance and Performance: Evidence from Saudi Arabia*. In (Vol. 7, pp. 78-89): **International Journal of Economics and Finance**.
- Alhazaimeh, A., Palaniappan, R., & Almsafir, M. (2014). *The impact of Corporate Governance and Ownership Structure on Voluntary Disclosure in Annual Reports among Listed Jordanian Companies*. In (Vol. 129, pp. 341-348): **Procedia Social and Behavioral Sciences**.

- Ali, C. B. (2006). *Disclosure Quality and Corporate Governance: Evidence from the French Stock Market*. In (Vol. 21, pp. 1-19): **Journal of Finance and Accounting**.
- Aljifri, K., & Moustafa, M. (2007). *The Impact of Corporate Governance Mechanisms on the Performance of UAE Firms: An Empirical Analysis*. In (Vol. 23, pp. 71-93): **Journal of Economic & Administrative Sciences**.
- Almatari, Y. A., Alswidi, A. K., & Fadzil, F. H. B. (2012). *Board of Directors, Audit Committee Characteristics and Performance of Saudi Arabia Listed Companies*. In (Vol. 2, pp. 241-251): **International Review of Management and Marketing**.
- Amba, S. M. (2013). *Corporate Governance and Firms' Financial Performance*. In (Vol. 8): **Journal of Academic and Business Ethics**.
- Amer, M., Ragab, A. A., & Shehata, S. E. (2014). *Audit Committee Characteristics and Firm Performance: Evidence from Egyptian Listed Companies*. In: **Proceedings of 6th Annual American Business Research Conference 9 - 10 June 2014**,.
- Attar, M. K. A. (2016). *Corporate Governance and Financial Statement Disclosure Quality in Jordanian Commercial Banks*. In (Vol. 8, pp. 192-205): **International Journal of Economics and Finance**.

- Baltagi, B. H. (2005). **Econometric Analysis of Panel data** (Third ed.): John Wiley & Sons.
- Bauer, R., Gunster, N., & Otten, R. (2004). Empirical Evidence on Corporate Governance in Europe, The Effect on Stock Returns, Firm Value and Performance. In (Vol. 5, pp. 91-104): **Journal of Asset Management**.
- Bedard, J., Marrakchi, S., & LucieCourtean. (2004). *The Effect of Audit Committee Expertise, Independence and Activity on Aggressive Earning Management*. In (Vol. 23, pp. 13-35): **Auditing: a Journal of Practice & Theory**.
- Beekes, W. (2006). *Do Better- Governed Australian Firms Make More Informative Disclosures?* In (Vol. 12, pp. 1-47): **Journal of Business, Finance and Accounting**.
- Beest, F. V., Braam, G., & Boelens, S. (2009). **Quality of Financial Reporting: Measuring Qualitative Characteristics**. In (pp. 1-41): Nijmegen Center for Economics, Institute for Management Research.
- Berle, A. A., & Means, G. C. (1932). **The Modern Corporation and Private Property**. In: New York Macmillan.
- Beyer, A., Cohen, D. A., Lys, T. Z., & Welther, B. r. (2010). *The Financial Reporting Environment: Review of the Recent*

*Literature*. In (Vol. 50, pp. 296-343): **Journal of Accounting and Economics**.

Bhagat, S., & Bloton, B. (2011). *Director Ownership. Governance and Performance*. In (Vol. 48, pp. 105-135): **Journal of Financial and Quantitative Analysis**.

Blair, M. M. (1996). *Ownership and Control: Rethinking Corporate Governance for the Twenty- First Century*. In (Vol. 39, pp. 62-79): **Brookings Institute**.

Botosan, C. A. (2006). *Disclosure and the Cost of Capital: What Do We Know?*. In (Vol. 5, pp. 31-40): **Accounting and Business Research**.

Box, G. E. P., & Pierce, D. A. (1970). *Distribution of Residual Autocorrelation in Autoregressive - integrated Moving average Time Series Models*. In (Vol. 65, pp. 1509-1526): **Journal of the American Statistical Association**.

Brick, I. E., Palmon, O., & Wald, J. K. (2005). *CEO compensation, Director compensation and Firm performance: Evidence from Cronyism*. In (Vol. 12, pp. 403-423): **Journal of Corporate Finance**.

Brickley, J. A., Coles, J. L., & Jerrell, G. (1997). *Leadership Structure: Separation the CEO and Chairman of the Board*. In (Vol. 3, pp. 189-220): **Journal of Corporate Finance**.

- Brown, S., & Hillegeist, S. A. (2007). *How Disclosure Quality Affects the Level of Information Asymmetry?* In (Vol. 12, pp. 443-477): **Review of Accounting Studies.**
- Byard, D., Li, Y., & Weintrop, J. (2006). *Corporate Governance and the Quality of Financial Analysts Information.* In (Vol. 25, pp. 609-625): **Journal of Accounting and Public Policy.**
- Chau, G. K., & Gray, S. J. (2002). *Ownership Structure and Corporate Voluntary disclosure in Hong Kong and Singapore.* In (Vol. 37, pp. 247-265): **International Journal of Accounting.**
- Chen, F., Hope, O.-K., Li, Q., & Wang, X. (2011). *Financial Reporting Quality and Investment Efficiency of Private Firms in Emerging Markets.* In (Vol. 86, pp. 1255-1288): **The Accounting Review.**
- Chen, Z., & Cheung, Y.-L. (2005). *Ownership Concentration, Firm Performance and Dividend Policy in Hong Kong.* In (Vol. 13, pp. 431-449): **Pacific- Basin Finance Journal.**
- Cheng, A., Collins, D., & Huang, H. (2008). *The Market Response to the Standard & Poors Transparency & Disclosure Rankings.* In (Vol. 5, pp. 244-255): **Corporate Ownership and Control.**
- Cheng, S. (2008). *Board Size and the Variability of Corporate Performance.* In (Vol. 87, pp. 157-176): **Journal of Financial Economics.**

- Chi, L.-C. (2009). Do the Transparency and Disclosure Predict Firm Performance? Evidence from the Taiwan Market. In (Vol. 36, pp. 11198-11203): **Expert Systems with Applications**.
- Chiang, H.-T., & He, L.-J. (2010). *Board Supervision Capability and Information Transparency*. In (Vol. 18, pp. 18-31): **Corporate Governance: An International Review**.
- Clarke, T. (1984). *Alternative Modes of Co-operative Production*. In (Vol. 5, pp. 97-128): **Economic and Industrial Democracy**.
- Clarkson, M. B. E. (1995). *A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance*. In (Vol. 20, pp. 92-109): 1995.
- Cohen, J., & Krishnamoorthy, G. (2008). *The Corporate Governance Mosaic and Financial Reporting Quality*. In (Vol. 21, pp. 87-152): **Journal of Accounting Literature**.
- Coleman, A. (2007). *Corporate Governance and Firm Performance in Africa : a Dynamic Panel Data Analysis*. In (Vol. 32, pp. 1-24): **Journal of Corporate Finance**.
- Coles, J. L., Daniel, N. D., & Naveen, L. (2008). *Boards: Does One Size Fit All?* In (Vol. 87, pp. 329-356): **Journal of Financial Economics**.

- Collins, D., & Haribar, P. (2002). *Errors in Estimating Accruals: Implications for Empirical Research*. In (Vol. 40, pp. 34-105): **Journal of Accounting Research**.
- Conger, J. A., Finegold, D., & E. Lawler, E. (1998). *Appraising Boardroom Performance*. In (Vol. 76, pp. 136-148): **Harvard Business Review**.
- Core, J. E., Guay, W. R., & Rusticus, T. O. (2006). *Does Weak Governance Cause Weak Stock Returns? An Examination of Firm Operating Performance and Investors Expectations*. In (Vol. 2, pp. 655-687): **The Journal of Finance**.
- Core, J. E., Holthausen, R. W., & Larcker, D. E. (1999). *Corporate Governance, Chief Executive Officer Compensation, and Firm Performance*. In (Vol. 51, pp. 371-406): **Journal of Financial Economics**.
- Daily, C. M., Dalton, D. R., & Cannella, A. A. (2003). *Corporate Governance: Decades of Dialogue and Data*. In (Vol. 28, pp. 371-382): **Academy of Management**.
- Daraghma, Z. M. A. (2013). *The Impact of Firms size, and Firms Debts Level on the Debt and Profitability Relationship of the Industrial Listed Companies in Palestine Exchange*. In (Vol. 2, pp. 112-121): **International Journal of Finance and Accounting**.

- Darko, J., Aribi, Z. A., & Uzonwanne, G. C. (2016). *Corporate governance: the impact of director and board structure, ownership structure and corporate control on the performance of listed companies on the Ghana stock exchange*. In (Vol. 16, pp. 259-277): **The International Journal of Business in Society**.
- Davies, J. R., Hillier, D., & McColgan, P. (2005). *Ownership Structure, Managerial Behavior and corporate Value*. In (Vol. 11, pp. 245-260): **Journal of Corporate Finance**.
- Davis, J. H., Schoorman, F. D., & Donaldson, L. (1998). *Toward a Stewardship Theory of Management*. In (Vol. 22, pp. 20-47): **Academy of Management Review**.
- Defond, M. L., & Hung, M. (2004). *Investor protection and Corporate Governance: Evidence from worldwide CEO Turnover*. In (Vol. 42, pp. 269-312): **Journal of Accounting Research**.
- Donaldson, L., & Davis, J. H. (1991). *Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns*. In (Vol. 16, pp. 49-65): **Australian Journal of Management**.
- Donaldson, L., & Davis, J. H. (1994). *Boards and company Performance - Research Challenges the Conventional Wisdom*. In (Vol. 3, pp. 65-91): **Corporate Governance: An International Review**.
- Donaldson, T. (1995). *The Stakeholder Theory of the Corporation: concepts, Evidence and Implications*. In (Vol. 20, pp. 65-91): **Academy of Management Review**.

- Ducassy, I., & Guyo, A. (2016). *Complex Ownership Structures, Corporate Governance and Firm Performance: The French Context*. In (Vol. 39, pp. 291-306): **Journal of International Business and Finance**.
- Dwaikat, N., & Queiri, A. (2014). *The Relationship Between Ownership structure and Firm's Performance: An Empirical Evidence from Palestine*. In (Vol. 9, pp. 49-61): **International Journal of Business and Management**.
- Dwivedi, N., & Jain, A. K. (2005). *Corporate Governance and Performance of Indian Firms: The Effect of Board Size and Ownership*. In (Vol. 17, pp. 161-172): **Employee Responsibilities and Rights Journal**.
- Fama, E. F. (1980). *Agency Problems and the Theory of the Firm*. In (Vol. 88, pp. 288-307): **Journal of Political Economy**.
- Feleye, O. (2007). *Does one Hat Fill All? The Case of Corporate Leadership Structure*. In (Vol. 3, pp. 239-259): **Journal of Management and Governance**.
- Fernandes, N. (2005). *Board Compensation and Firm Performance: The role of "Independent" Board Members*. In (Vol. 18, pp. 30-44): **Journal of Multinational Financial Management**.
- Field, A. (2009). **Discovering Statistics Using SPSS (Third ed.)**: SAGE, London.

- Florackis, C., & Ozkan, A. (2004). *Agency Costs and Corporate Governance Mechanisms: Evidence From UK Firms*. In (Vol. 16).
- Fodio, M. I., Ibikunle, J., & Oba, V. C. d. (2013). *Corporate Governance Mechanisms and Reported Earnings Quality in Listed Nigerian Insurance Firms*. In (Vol. 2, pp. 279-286): **International Journal of Finance and Accounting**.
- Foroughi, M., & Fooladi, M. (2011). *Corporate Ownership Structure and Firm Performance: Evidence from Listed Firms in Iran*. In (Vol. 20, pp. 334-339): **International Conference on Humanities, Society and Culture**.
- Freeman, R. E. (1984). **Strategic Management: A Stakeholder Approach**. In: New York, McGraw Hill.
- Fung, B. (2014). *The Demand and Need for Transparency and Disclosure in corporate Governance*. In (Vol. 2, pp. 72-80): **Universal Journal of Management**.
- Gelb, D., & Zarowin, P. (2000). **Corporate Disclosure Policy and the Informativeness of Stock Prices**. In: Working Paper, New York University. New York.
- Gois, C. C. (2008). *Financial Reporting Quality and Corporate Governance: The Portuguese Companies Evidence*. In (Vol. 79, pp. 1-25): **Journal of Accounting and Economics**.

- Greene, W. H. (2008). **Econometric Analysis** (6th ed.): New Jersey: Person Prentice Hall.
- Gujarati, D. N. (2003). **Basic Econometrics: McGraw Hill**, New York, NY.
- Guo, Z., & Kumara, U. (2012). *Corporate Governance and Firm Performance of Listed Firms in Sri Lanka*. In (Vol. 40, pp. 664-667): **Journal of Social and Behavioral Sciences**.
- Haider, N., Khan, N., & Iqbal, N. (2015). *Impact of corporate Governance on Firm Financial Performance in Islamic Financial Institution*. In (Vol. 51, pp. 106-110): **International Letters of Social and Humanistic Sciences**.
- Hamad, S. A. (2013). **Firms Value & Capital Structure Determinants: Regional Evidence from Palestine, Jordan and Egypt Stock Exchange**. (Doctor of Philosophy),
- Haniffa, R., & Hudaib, M. (2006). *Corporate Governance Structure and Performance of Malaysian Listed Companies*. In (Vol. 33, pp. 1034-1062): **Journal of Business Finance and Accounting**.
- Harbi, N. (2007). **State of Corporate Governance in Arab Countries: An Overview**. In (pp. 1-44): University of Applied Sciences, Northwestern Switzerland.

- Hasan, I., Kobeissi, N., & Song, L. (2011). *Corporate Governance, Investor Protection, And Firm Performance in MENA Countries*. In (pp. 1-22): **The Economic Research Forum**.
- Hashim, H. A., & Devi, S. S. (2008). *Board Independence, CEO duality and Accrual Management: Malaysian Evidence*. In (Vol. 1, pp. 27-46): **Asian Journal of Business and Accounting**.
- Hill, C. W. L., & Jones, T. M. (1992). *Stakeholder - Agency Theory*. In (Vol. 2, pp. 132-154): **Journal of Management Studies**.
- Ho, S. S. M., & Wong, K. S. (2001). *A Study of the Relationship Between Corporate Governance Structures and the Extent of Voluntary Disclosure*. In (Vol. 10, pp. 139-156): **Journal of International Accounting**.
- Holderness, C. G. (2003). *A Survey of Blockholders and Corporate Control*. In (Vol. 9, pp. 51-63): **Economic Policy Review**.
- Holtz, L., & Neto, A. S. (2014). *Effects of Board Characteristics on the Quality of Accounting Information in Brazil*. In (Vol. 25).
- Hope, O.-K., Jin, J., & Kang, T. (2006). *Empirical Evidence on Jurisdictions that Adopt IFRS*. In (Vol. 5, pp. 1-20): **Journal of International Accounting Research**.
- Hsiao, C. (2003). **Analysis of Panel Data**. In: Cambridge University Press.

- Htay, S. N. N., Said, R. M., & Salman, S. A. (2013). *Impact of Corporate Governance on Disclosure Quality: Empirical Evidence from Listed Banks in Malaysia*. In (Vol. 7, pp. 242-279): **Journal of Economics and Management**.
- Huafang, X., & Jianguo, Y. (2007). *Ownership Structure, Board Composition and Corporate Voluntary disclosure: Evidence from Listed Companies in China*. In (Vol. 22, pp. 604-619): **Managerial Auditing Journal**.
- Jensen, M. C., & Meckling, W. H. (1976). *Theory of the firm: Managerial Behavior, Agency Costs and Ownership Structure*. In (Vol. 3, pp. 305-360): **Journal of Financial Economics**.
- Jensen, M. C., & Murphay, K. J. (1990). *Performance Pay and Top-Management Incentives*. In (Vol. 98, pp. 225-264): **The Journal of Political Economy**.
- Joh, S. W. (2003). *Corporate Governance and Firm Profitability: Evidence from Korea Before the Economic Crisis*. In (Vol. 68, pp. 287-322): **Journal of Financial Economics**.
- Johnson, R. A., Hoskisson, R. E., & Hitt, M. A. (1993). *Board of Director Involvement in Restructuring: The Effects of Board Versus Managerial Controls and Characteristics*. In (Vol. 14, pp. 33-50): **Strategic Management Journal**.

- Karamanou, I., & Vafeas, N. (2005). *The Association Between Corporate Boards, Audit Committees, and Management Earnings Forecasts: An Empirical Analysis*. In (Vol. 3, pp. 453-486): **Journal of Accounting Research**.
- Kim, B., & Lee, I. (2003). *Agency Problems and Performance of Korean Companies During the Asian Financial Crisis: Chaebol vs. Non-Chaebol firms*. In (Vol. 11, pp. 327-348): **Pacific- Basin Finance Journal**.
- Klai, N., & Omri, A. (2011). *Corporate Governance and Financial Reporting Quality: The Case of Tunisian Firms*. In (Vol. 4, pp. 158-166): **International Business Research**.
- Kumar, N. (2012). *Outside Directors, Corporate Governance and Firm Performance: Empirical Evidence from India*. In (Vol. 4, pp. 39-55): **Asian Journal of Finance and Accounting**.
- Kutum, I. (2015). *Board Characteristics and Firm Performance: Evidence from Palestine*. In (Vol. 3, pp. 32-47): **European Journal of Accounting Auditing and Finance Research**.
- Lakhal, F. (2005). *Voluntary Earnings Disclosures and Corporate Governance: Evidence from France*. In (Vol. 4, pp. 64-85): **Review of Accounting and Finance**.
- Laksmana, I. (2008). *Corporate Board Governance and Voluntary Disclosure of Executive Compensation Practices*. In (Vol. 25, pp. 1147-1182): **Contemporary Accounting Research**.

- Lambert, R., Leuz, C., & Verrecchia, R. E. (2005). *Accounting Information, Disclosure and Cost of Capital*. In: **Journal of Accounting Research**.
- Lang, M. H., & Lundholm, R. J. (1996). *Corporate Disclosure Policy and Analyst Behavior*. In (Vol. 71, pp. 467-492): **The Accounting Review**.
- Lawal, B. (2012). *Board Dynamics and Corporate Performance: Review of Literature, and Empirical Challenges*. In (Vol. 4, pp. 22-35): **International Journal of Economics and Finance**.
- Letza, S., Sun, X., & Kirkbride, J. (2004). *Shareholding Versus Stakeholding: A Critical Review of Corporate Governance*. In (Vol. 12, pp. 242-262): **Corporate Governance: An International Review**.
- Luo, S., Courtenay, S. M., & Hossain, M. (2006). *The Effect of Voluntary Disclosure, Ownership Structure and Proprietary Cost on the Return-Future Earnings Relation*. In (Vol. 14, pp. 501-521): **Pacific Basin Finance Journal**.
- Manuale, J., Vazquez, R., & Valdes, A. (2012). *Corporate Governance, Ownership Structure and Performance in Mexico*. In (Vol. 5, pp. 12-27): **Journal of International Business research**.
- Manzaneque, M., Priego, A. M., & Merino, E. (2015). *Corporate governance effect on financial distress likelihood: Evidence from Spain*. In (Vol. 19, pp. 111-121): **Spanish Accounting Review**.

- Marn, J. T. K., & Romuald, D. F. (2012). *The Impact of Corporate Governance Mechanisms and Corporate Performance: A Study of Listed Companies in Malaysia*. In (Vol. 3, pp. 31-45): **Journal for the Advancement of Science and Arts**.
- Mohamm, S. (2016). *The Relationship Between Disclosure Quality and Company Performances Using SPSS Software*. In (Vol. 7, pp. 74-81): **Research Journal of Finance and Accounting**.
- Mouamer, F. M. A. (2011). *The determinants of Capital Structure of Palestine-Listed Companies*. In (Vol. 12, pp. 226-241): **The Journal of Risk Finance**.
- Muhamad, R., & Shahimi, S. (2009). **Disclosure Quality on Governance Issues in Annual Reports of Malaysian PLCs**. In (Vol. 2, pp. 61-72): *International Business Research*.
- Mura, R. (2006). *Firm Performance: Do Non- Executive Directors Have a Mind of their Own? Evidence from UK Panel Data*. In (Vol. 37, pp. 81-112): **Financial Management**.
- Musallam, S. R. M. (2015). *Institutional Ownerships and Market Performance*. In (Vol. 6, pp. 570-577): **Mediterranean Journal of Social Sciences**.
- Mustapa, I. R., & GHazali, N. A. (2015). *The influence of Corporate Governance and Organizational Capacity on the Performance of*

*Malaysian Listed Companies*. In (Vol. 6, pp. 27-33): **Mediterranean Journal of Social Sciences**.

Ozkan, A. (2001). *Determinants of Capital Structure and Adjustment to Long Run Target: Evidence from UK Company Panel Data*. In (Vol. 28, pp. 175-198): **Journal of Business finance and accounting**.

Patel, S. A., Balic, A., & Bwakira, L. (2002). *Measuring Transparency and Disclosure at Firm Level in Emerging Markets*. In (Vol. 3, pp. 325-337): **Emerging Markets Review**.

Pathan, S., Skully, M., & Wickramanayaka, J. (2004). *Board Size, Independence and Performance: an Analysis of Thai Banks*. In (Vol. 14, pp. 211-227): **Asia-Pacific Financial Markets**.

PCMA. (2009). **Code of Corporate Governance in Palestine**. In.

Perry, T., & Shivdasani, A. (2005). *Do Board Affect Performance? Evidence from Corporate Restructuring*. In (Vol. 78, pp. 1403-1431): **Journal of Business**.

Piesse, J., Strange, R., & Toonsi, F. (2012). *IS There a Distinctive MENA Model of Corporate Governance*. In (Vol. 16, pp. 645-681): **Journal of Accounting and Finance**.

Ponnu, C. H. (2008). *Corporate Governance Structures and the Performance of Malaysian Public Listed Companies*. In (Vol. 4,

pp. 217-230): **International Review of Business Research Papers.**

Powell, G. E., & Baker, H. K. (2010). *Management Views on Corporate Cash Holdings*. In: **Journal of Applied Finance.**

Pucheta-Martinez, M. C., & Fuentes, C. D. (2007). *The Impact Of Audit Committee Characteristics On The EnhancementOf The Quality Of Financial Reporting: An Empirical Study In The Spanish Context*. In (Vol. 15, pp. 1394-1412): **Corporate Governance.**

Raut, S. (2010). *Corporate Governance - Concepts and Issues*. In: **Research Scholar with Institute of Directors.**

Rezaee, Z. (2003). *High-Quality Financial Reporting: The Six-Legged Stool*. In (Vol. 84, pp. 26-30): **Strategic Finance.**

Salehi, M., & Shirazi, M. (2016). *Audit Committee Impact on the Quality of Financial Reporting and Disclosure: Evidence from the Tehran Stock Exchange*. In (Vol. 39, pp. 1639-1662): **Management Research Review.**

Salim, R., Arjomandi, A., & Seufert, J. H. (2014). *Does corporate governance affect Australian banks' performance?* In (Vol. 43, pp. 113-125): **Journal of International Financial Markets, Institutions & Money.**

- Sanda, A., S.Mikailu, A., & Garaba, T. (2003). *Corporate Governance Mechanisms and Firm Financial Performance in Nigeria*. In: **Working Paper of AERC**.
- Seifert, B., Gonenc, H., & Wright, J. (2005). *The International Evidence on Performance and Equity Ownership by Insiders, Blockholders, and Institutions*. In (Vol. 15, pp. 171-191): **Journal of Multinational Financial Management**.
- Sheikh, N. A., & Wang, Z. (2011). *Determinants of Capital Structure: An Empirical Study of Firms in Manufacturing Industry in Pakistan*. In (Vol. 37, pp. 117-133): **Managerial Finance Journal**.
- Shleifer, A., & Vishny, R. W. (1997). *A Survey of Corporate Governance*. In (Vol. 2, pp. 737-783): **The Journal of Finance**.
- Soheilyfar, F. (2014). *Disclosure Quality and Corporate Governance: Evidence from Iran*. In (Vol. 6, pp. 75-85): **Asian Journal of Finance & Accounting**.
- Torchia, M., & Calabro, A. (2016). *Board of Directors and Financial Transparency and Disclosure. Evidence from Italy*. In (Vol. 16, pp. 593-608): **Corporate Governance International Journal of Business Society**.
- Utama, S. (2003). *Corporate Governance, Disclosure and Its Evidence in Indonesia*. In: **Majalah Usahawan**.

- Vafeas, N. (1999). *Board Meeting Frequency and Firm Performance*. In (Vol. 58, pp. 113-142): **Journal of Financial Economics**.
- Veal, A. J. (2005). **Business Research Methods: A Managerial Approach** (2nd Ed.): South Melbourne, Vic. : Pearson Addison Wesley.
- Viviani, J.-L. (2008). *Capital Structure Determinants: An Empirical Study of French Companies in the Wine Industry*. In (Vol. 20, pp. 171-194): **International Journal of Wine Business Research**.
- Vo, D., & Phan, T. (2013). *Corporate Governance and Firm Performance: Empirical Evidence from Vietnam*. In (Vol. 8, pp. 62-78): **Journal of Economic Development**.
- Xie, B., Davidson, W. N., & DaDalt, P. J. (2003). *Earnings management and corporate governance: the role of the board and the audit committee*. **Journal of Corporate Finance**, 9(3), 295-316. doi:10.1016/s0929-1199(02)00006-8
- Yermak, D. (1996). *Higher Market Valuation of Companies with a Small Board Directors*. In (Vol. 40, pp. 185-211): **Journal of Financial Economics**.
- Yong, J. S., & Krishnan, J. (2005). *Audit Committees and Quarterly Earning management*. In (Vol. 9, pp. 201-219): **International Journal of Auditing**.

- Yoshikawa, T., & Phan, P. H. (2003). *The Performance Implication of Ownership-Driven Governance Reform*. In (Vol. 21, pp. 698-706): **European Management Journal**.
- Zabri, S. M., Ahmad, K., & Wah, K. K. (2015). *Corporate Governance Practices and Firm Performance: Evidence from Top 100 Public Listed Companies in Malaysia*. In (Vol. 35, pp. 287-296): 7th **International Economics & Business Management Conference**.
- Zagorche, A., & Gao, L. (2015). *Corporate governance and performance of financial institutions*. In (Vol. 82, pp. 17-41): **Journal of Economics and Business**.

**Appendix: Companies listed in Palestine Exchange**

<b>Company</b>	<b>symbol</b>
ARAB ISLAMIC BANK	AIB
BANK OF PALESTINE	BOP
PALESTINE ISLAMIC BANK	ISBK
PALESTINE COMMERCIAL BANK	PCB
PALESTINE INVESTMENT BANK	PIBC
PALESTINE SECURITIES EXCHANGE	PSE
AL QUDS BANK	QUDS
THE NATIONAL BANK	TNB
ARAB COMPANY FOR PAINTS PRODUCTS	APC
PALESTINE POULTRY	AZIZA
BEIT JALA PHARMACEUTICAL	BJP
BIRZEIT PHARMACEUTICALS	BPC
AL SHARK ELECTRODE	ELECTRODE
GOLDEN WHEAT MILLS	GMC
JERUSALEM CIGARETTE	JCC
JERUSALEM PHARMACEUTICALS	JPH
PALESTINE PLASTIC INDUSTRIES	LADAEN
NATIONAL ALUMINUM AND PROFILE "NAPCO"	NAPCO
THE NATIONAL CARTON INDUSTRY	NCI
DAR AL-SHIFA PHARMACEUTICALS	PHARMACARE
THE VEGETABLE OIL INDUSTRIES	VOIC
AHLIEA INSURANCE GROUP(**)	AIG
GLOBAL UNITED INSURANCE	GUI
AL MASHRIQ INSURANCE(*)	MIC
NATIONAL INSURANCE	NIC
PALESTINE INSURANCE	PICO
AL-TAKAFUL PALESTINIAN INSURANCE	TIC
TRUST INTERNATIONAL INSURANCE	TRUST
ARAB PALESTINIAN INVESTMENT "APIC"	APIC
AL-AQARIYA TRADING INVESTMENT	AQARIYA
ARAB INVESTORS	ARAB
JERUSALEM REAL ESTATE INVESTMENT	JREI
PALESTINE DEVELOPMENT & INVESTMENT	PADICO
PALESTINE INVESTMENT & DEVELOPMENT	PID
PALESTINE INDUSTRIAL INVESTMENT	PIIC
PALESTINE REAL ESTATE INVESTMENT	PRICO

<b>Company</b>	<b>symbol</b>
UNION CONSTRUCTION AND INVESTMENT	UCI
AL-WATANIAH TOWERS	ABRAJ
THE ARAB HOTELS	AHC
ARAB REAL ESTATE ESTABLISHMENT	ARE
GLOBALCOM TELECOMMUNICATIONS	GCOM
NABLUS SURGICAL CENTER	NSC
PALAQAR FOR REAL ESTATE DEV.& MANAGEMENT	PALAQAR
PALESTINE TELECOMMUNICATIONS	PALTEL
PALESTINE ELECTRIC	PEC
ARAB PALESTINIAN SHOPPING CENTERS	PLAZA
THE RAMALLAH SUMMER RESORTS	RSR
PALESTINIAN DIST. & LOGISTICS SERVICES	WASSEL
WATANIYA PALESTINE MOBILE TELECOMM.	WATANIYA

جامعة النجاح الوطنية  
كلية الدراسات العليا

العلاقة بين حوكمة الشركات والأداء المالي للشركات المساهمة العامة  
المدرجة في بورصة فلسطين: الدور الوسيط لجودة الإفصاح

إعداد

فوزي شريف "حسين علي"

إشراف

د. معاذ أسمر

د. معز أبو عليا

قدمت هذه الأطروحة استكمالاً لمتطلبات الحصول على درجة الماجستير في المحاسبة  
بكلية الدراسات العليا في جامعة النجاح الوطنية في نابلس، فلسطين.

2018م

ب

## العلاقة بين حوكمة الشركات والأداء المالي للشركات المساهمة العامة المدرجة في بورصة فلسطين: الدور الوسيط لجودة الإفصاح

إعداد

فوزي شريف "حسين علي"

إشراف

د. معاذ أسمر

د. معز أبو عليا

الملخص

اكتسبت حوكمة الشركات مزيداً من الاهتمام ، حيث يبحث المستثمرون عن تعظيم العوائد والثروة في معظم البلدان. تلعب القطاعات الخاصة دوراً مهماً في تعزيز اقتصاديات الدول. هناك علاقة وثيقة بين حوكمة الشركات و جودة الافصاح. تعتبر جودة الإفصاح مهمة حيث أنها تعزز كفاءة السوق وتجذب الاستثمارات إلى الشركات ، مما يؤدي إلى أداء الشركات بشكل أفضل. الهدف من هذه الدراسة هو دراسة تأثير آليات حوكمة الشركات على الأداء المالي للشركات من خلال التأثير الوسيط لجودة الافصاح.

تشمل آليات حوكمة الشركات المستخدمة في هذه الدراسة حجم مجلس الادارة وملكية مجلس الإدارة وتعويضات مجلس الادارة وعدد اجتماعات مجلس الإدارة وازدواجية الوظيفة وحجم لجنة التدقيق. تم قياس أداء الشركة باستخدام العديد من المؤشرات ، مثل العائد على الأصول والعائد على حقوق المساهمين وصافي الدخل والإيرادات وقيمة الشركة والسيولة. المتغير الوسيط هو نوعية الإفصاح ، والتي تم قياسها بواسطة المستحقات الاختيارية.

قام الباحث بجمع البيانات للشركات المدرجة في سوق فلسطين للأوراق المالية من عام 2005 إلى 2016. تم استخدام طريقة GMM للتحقيق في العلاقة بين هذه المتغيرات. وقد لاحظت الدراسة أن حجم مجلس الادارة ، ملكية المجلس ، الفصل في هيكل القيادة يؤثر على جودة الإفصاح بشكل إيجابي. ومع ذلك ، فإن تعويضات مجلس الإدارة و حجم لجنة التدقيق له آثار سلبية على جودة الافصاح. كما تبين أن جودة الإفصاح لها تأثير إيجابي على سندات

ج

قيمة الشركة ، والدخل الصافي والسيولة ، في حين تؤثر سلبياً على العائد على الأصول والعائد على حقوق الملكية والعائدات. اما فيما يتعلق بتأثير حوكمة الشركات على الاداء المالي للشركات المدرجه في بورصة فلسطين فتبين النتائج ان هناك تناقض في تاثير هذه المتغيرات على الاداء المالي الخاص بالشركات.