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Influence of Board Interlocking, Board Structure and Ownership Structure on the Financial Performance of Palestinian Corporations

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Detection

إلى الذين أحبوني وحملوا همي .... أمي الغالية وأبي العزيز

إلى إخواني الأعزاء أخواتي الغاليات

إلى ذلك النور الساطع .... رفيقة دربي... زوجتي الحبيبة

إلى تلك الشموع التي أنارت لي الدرب. مهجة القلب والفؤاد...

أبنائي الأعزاء

إلى أصدقائي وزملائي الأعزاء

إلى كل من كان له فضل علي بعد الله عز وجل في مواصلة مسيرتي العلمية

إلى كل من أحبني وتمنى لي التوفيق والنجاح

أهدي هذا العمل المتواضع

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أنا الموقع أدناه مقدّم الرسالة التي تحمل عنوان:

أثر تداخل مجالس الإدارة، وهيكل الملكية، وخصائص مجلس الإدارة على الأداء المالي للشركات المساهمة العامة المدرجة في بورصة فلسطين

Influence of Board Interlocking, Board Structure and Ownership Structure on the Financial Performance of Palestinian Corporations

أقرّ بأنّ ما اشتملت عليه الرسالة إنّما هو نتاج جهدي الخاص باستثناء ما تمّت الإشارة إليه حيثما ورد وأنّ هذه الرسالة ككل أو أيّ جزء منها لم يقدّم من قبل لنيل أيّ درجة علمية أو بحث علمي لدى أيّ مؤسسة تعليمية أو بحثيَّة 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.

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Date:	**29/05/2021**	التاريخ:

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List of Abbreviations

CG	: Corporate Governance
OS	: Ownership Structure
FP	: Financial Performance
PEX	: Palestine Exchange
BI	: Board Interlocking
STT	: Stewardship Theory
BD	: Board of Directors
ST	: The stakeholder theory
OECD	: Economic Co-operation and Development
RD	: Resource Dependence
EPS	Earnings per share
BI	Board Interlocking
CI	Corporate Interlocking
AT	Agency Theory

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Abstract

This thesis purpose is to examine the impact of ownership structure, board characteristics, and board interlocking on corporate financial performance of listed firms at Palestine exchange. The data was obtained through the manual examination of the annual reports of listed companies at the Palestinian Exchange (PEX) for the period from 2011 to 2018. Besides, the market value of the stocks listed in the market. The researcher investigated the entire listed corporations.

The thesis findings CEO duality, existence of women on the board, foreign ownership and corporate size has positive effect on ROA. However, frequency of board meetings, board size, number of interlocking, interlocking per board, institutional ownership, large ownership and corporate financial leverage have negative relationship with ROA. According to the Tobin`s Q there is positive effect for frequency of board meetings, number of interlocking, interlocking per board member, foreign ownership, institutional ownership and large ownership on corporate financial performance. However, there is negative effect for board size, CEO duality, women in the board, corporate financial leverage and corporate size on financial performance.

In terms of practical implications, this research demonstrated that companies should decrease the board interlocking by ensuring to supplement new board members who are not interconnected. There is a necessity to keep the size of the board to a minimum size as that will give the companies the potential and power to carry out their supervision activities efficiently. Furthermore, the board of directors should include professional and experts who have good experience, awareness and knowledge with the controlling and oversight duties and activities. Eventually, there is necessity to rationalize the number of board meetings. Besides, Capital Market Authority and the other supervisory organizations should set rules and regulations that decrease the large ownership and institutional ownership in Palestinian listed. Eventually, there is a necessity to adopt policies and laws that promote and encourage foreign ownership in listed companies at the Palestinian exchanges.

Key words: Board interlocking, ownership structure, board of director characteristics, corporate governance, financial performance.

Chapter One

Introduction

Chapter One

Introduction

1.1 Introduction

The International economy is witnessing the important role of Corporate Governance (CG) as a factor in the marketplace. The financial problems of many of the world leading companies have led to the need for a set of ethical and professional controls, laws and principles to achieve confidence and credibility in the information disclosed in the financial statements needed by many users, especially investors. This need clearly demonstrates the importance of establishing good CG practices that can have an active role in the field of financial and administrative reforms, increase investor confidence in the financial statements, stimulating national investment, and attracting foreign investments (Zayed, 2017).

Owing to the critical importance of the Ownership Structure (OS) in public shareholding companies, many studies have discussed the influence of OS on the Financial Performance (FP) of these companies. In addition, in the belief of many researchers, it may reflect the strength and continuity of companies' work and success. The OS is important in determining corporate objectives, shareholders’ wealth, and managers’ discipline (Jensen & Meckling, 1976). Both managers and shareholders should have one goal of maximizing the value of the company (Abu Zir, 2010).

The agency problem between investors seeking for maximizing wealth and the innovative agents that have new ways to increase their own FP call for a third party to monitor the performance of management. Many studies have highlighted the complex interaction between the OS and the performance of companies investigated the agency problem between managers and shareholders in order to support the continuity and vitality of the company. Shareholders usually try to raise the proportion of indebtedness in the composition of capital in an attempt to put pressure on the company management. Besides, to reduce their ability to achieve personal interests. In addition, shareholders try to find an external party that can monitor the management performance at the company (Ramadan, 2009).

Abdeljawad and Masri (2020) explored the influence of the board of directors’ characteristics on the financial performance of companies listed at the Palestine Exchange (PEX). The researchers found that when there is a high level of empowerment for senior management and executives, they will execute faster, there will be a low potential for ambiguity between the firm`s objectives and processes, and thus there will be an increase in the FP of the business. This result is an agreement with the Stewardship Theory (STT).

Bezemer et al. (2007) argued that Board Interlocking (BI) is important and offers advantages to corporations in a network by sharing their directors. Palestinian corporations are characterized by high connectivity, and it is interesting to highlight the impact of this connectivity on performance.

Few studies investigated the influence of ownership structure and board of directors’ characteristics on corporate financial performance in Palestine. Whereas, the relationship between corporate interlocking and performance has not been addressed yet. Therefore, this study will overcome this divergence by studying the effect of ownership structure, board of directors’ characteristics, and corporate interlocking on the performance of companies in Palestine.

1.2 Research Problem

The influence of board characteristics, ownership structure and interlocking on corporate financial performance of companies listed on Palestine Exchange is perceived as a unique and quite complicated area taking into consideration that the corporations` capital ownership structure change constantly from one type of ownership to another such as the change from foreign ownership, concentrated or large ownership and institutional ownership. This is evident in several financial markets. Besides, in light of these developments and arises of financial crises in the globe there is a constant development and change in corporate environment, corporate structure and even government policies relating to corporations. These changes in ownership structure, board of directors` characteristics and interlocking affect significantly financial performance. (Shahrier et al. 2018), (Pombo & Gutierrez, 2011).

In Palestinian case, according to the researcher knowledge there is a little research investigated the influence of ownership structure and board of directors` characteristics on corporate financial performance. Moreover, the relationship between corporate interlocking and performance has not been addressed yet. Board of director’s characteristics and board interlocking may be an important corporate governance tools to protect small investors and other stakeholders’ interests and improve the financial performance of Palestinian corporations. Thus, this study will contribute to bridge the research gap in this important field through exploring the influence of the corporate interlocking, ownership structure and board of directors` characteristics on the financial performance of Palestinian corporations.

1.3 Research Objectives

The main objective of this study is to explore the influence of board interlocking, board characteristics and ownership structure on the financial performance of Palestinian listed corporations. Based on this main objective, three sub objectives are the following:

1 To explore the effect of board interlocking on the financial performance of Palestinian corporations.

2 To estimate the influence of board characteristics on the financial performance of Palestinian corporations.

3 To investigate the influence of ownership structure on the financial performance of Palestinian corporations.

1.4 Research Questions

The research questions of the thesis are the following:

1- What is the influence of board interlocking on the financial performance of Palestinian corporations?

2- What is the influence of the board characteristics (board size, women in the board, frequency of board meetings, CEO duality) on the financial performance of Palestinian corporations?

3- What is the influence of ownership structure on the financial performance of Palestinian companies?

1.5 Importance of the Study

The findings of this study are most likely to be important for investors, policymakers and the Palestinian Capital Market Authority (PCMA) to set the rules and regulations in order to improve the corporate governance in Palestinian listed companies in order to protect the interest of shareholders and support the financial performance of these corporations. Besides, this study will provide clear insight for investors about the efficiency of the board interlocking, board characteristics and ownership structure of listed companies in Palestine.

This study is important for listed companies in order to have good insight and awareness of the best and optimal board structure, ownership structure and board interlocking in order to improve their financial performance.

The significance of this study stems from adding to the previous researches new evidence on the influence of the ownership structure, board characteristics and interlocking on corporate financial performance from the companies listed in Palestine exchange. Most of the previous studies in this field were conducted in developed context and there is a gap in studies and research that explored this topic in underdeveloped countries such as the case of Palestinian companies. Therefore, this study provides a new understanding relevant to the relationship between these important variables.

Improving the governance level and the performance of corporations is likely to enhance the confidence and trust of the investors and shareholders and motivating them to invest more in Palestine Exchange, hence affect the development of the country, increase its competitiveness and economic and financial prosperity. Besides, this study is important for PCMA and policy makers as they seek to establish an encouraging atmosphere and establish policies to enhance and develop confidence across all types of investors in order to create and build a strong economy that is inclusive.

This research adds more insight to previous works in Palestine Abdeljawad and Masri (2020), Hassan (2016), and Abu Zer (2011) as it explores the impact of ownership structure, corporate interlocking, and board characteristics on the financial performance of companies listed in PEX. Therefore, this study will explore several factors influencing corporate financial performance. Besides, this study is one of the pioneering studies in Palestine that explore the impact of the existence of women on board (Women) in increasing the financial performance of the corporations. There are several studies such as Abdelzaher (2019) and Rose (2007) that have documented the positive correlation between the existence of female in the board of directors and financial performance of the corporations and an increasing emphasize on the importance of diversity in the board in order to increase the profitability of the business but only few from underdeveloped countries.

1.6 Thesis Structure

This thesis is structured as follows: Chapter One presents introduction and background of the study, defines the problem, specifies the objectives and importance of the study, and the questions that the research will answer. Chapter Two presents the theoretical framework and empirical previous studies through articulating the related theories with special emphasizes on Agency Theory (AT), resource dependence theory and STT. The researcher in the second section in chapter two presents several empirical studies that explore the relationship between the board characteristics, corporate interlocking and ownership structure on financial performance of corporations in different contexts either in developed countries or in developing countries.

The third chapter is the design of the study and its methodology. This chapter explores the research approach and design, the philosophy of the study, population and sample of the study, data collection tools, articulating the model of the study and defining the dependent and independent variables of the study. Chapter Four presents the results and discussions. Descriptive data analysis and interpretation of the estimation output is carried out. Eventually, Chapter Five concludes this thesis and suggest recommendations.

Chapter Two

Theoretical Framework & Empirical Studies

Chapter Two

Theoretical Framework and Empirical Studies

2.1 The Concept of Corporate Governance

The most common definition of CG is the definition that was suggested by Cadbury committee in 1992 as “The system by which companies are directed and controlled” (Cadbury Report, 1992). The Organization for Economic Co-operation and Development (OECD) define corporate governance as “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the aims of the company are set, and the means of achieving those aims and monitoring performance are determined". While, the Corporate Governance Guide was issued by Central Bank of Jordan (2017) defined governance as: "The system by which the bank is directed and managed, which aims to define the bank's institutional goals and achieve them, manage the bank's operations safely, protect the interests of depositors, and adhere to due responsibility towards shareholders and other stakeholders, the bank adheres to the bank's internal legislation and policies".

The Guide to the Rules and Best Practices for Banking Governance in Palestine issued by the Palestine Monetary Authority in 2017, defined governance from the perspective of the Palestinian Monetary Authority as "A set of relationships, rules, procedures and principles that guarantee the bank's management in a judicious manner that achieves the interests of the relevant parties in a manner consistent with laws, instructions and best practices in the field of banking business, and in a manner that achieves the bank’s maintenance and development”. (Palestine Monetary Authority, 2017, p. 8).

Finally, the Code of Corporate governance in Palestine offers the following definition: "The Corporate governance is the set of rules and procedures by which the company's management and supervision are carried out through the co-ordination of relations between the board of directors and the Executive Management and the shareholders and all other stakeholders including the social and the environmental responsibilities for the company” (Code of Corporate governance in Palestine, 2009). As we can see, all definitions are affected by the Cadbury committee definition and the OECD definition.

2.2 Theories of Corporate Governance

There are many theories that directed the empirical research in the field of corporate governance. The most important theories AT, Resource Dependence (RD), stakeholder’s theory (ST) and STT. Following are a discussion of each.

2.2.1 Agency Theory

The role of businesses is to maximize shareholders' wealth (Blair, 1996) but Jensen and Meckling (1976) explain a basic problem of lacking or detached shareholders who hire professional executives to act on their behalf. However, a conflict may occur between the principal and the agent as each is aiming to maximize his interest. Agency problem is closely connected to information asymmetry problem. According to Eisenhardt (1989), most firms exist under circumstances of inadequate data, information, and uncertainty that expose these businesses to two information asymmetry problems: adverse selection and moral hazard. Adverse selection takes place when shareholders cannot determine whether an agent correctly characterizes his aptitude to do the work for which he is paid to do, whereas moral hazard is a situation under which a principal cannot be certain if an agent has present highest effort. The conflicting interest between principal and agents explain practices that may be appraised as dishonest or immoral.

The executive senior managers who are expected to be professionals may be more involved to achieve their personal interests at the expense of the business and shareholder's interests (Berle & Means, 1932). The executive senior managers, by the reality that they can access large amount of information and data than other stakeholders, may benefit over the shareholders.

According to Donaldson and Davis (1991), senior executive management will not respond to maximize returns to shareholders unless efficient governance structures are adopted to protect the stakeholders and shareholder's interests. Wheelen and Hunger (2002) claimed that the problems take place due to agents (professional) are not eager to tolerate accountability for their decisions as they do not own a large amount of stock in the corporation and so that they don't stand to take advantage by perusing wealth maximizing objective. Moreover, Mallin (2002) argued that a senior executive management of the business ought to have an important stake of ownership to ensure a positive relationship between CG and the amount of stock owned by the top management.

The researcher in this study used the AT since this thesis focuses on the association between corporate shareholders and their professional agents existing in various OSs. Moreover, how these relationships influence the corporate FP of corporations listed in PEX market.

2.2.2 Stakeholder Theory

This theory assumes that a corporation ought to be managed and controlled in the best interests of its entire stakeholder (Freeman, 1994). The stakeholder theory (ST) is based on the argument that values are essentially and obviously a portion of doing business and that senior executive management have to clear the common sense of value they produce to bring its main stakeholders together. When stakeholders achieve what they desire and pursue from a corporation, they return to the business for more (Freeman & McVea, 2001).

According to Ehrlich et al., (1994) stakeholders can be an important technique and tool to achieve corporate success and so that, corporate leaders must take into account the opinions of stakeholders when they make the corporate decisions and bear business responsibly towards all stakeholder's interests. The ST assumes that senior executive managers ought to make decisions in order to consider all stakeholders` interests in the corporation comprising not merely financial claimants, but further human resources in the business, customers, communities and governmental officials (Manville & Ober, 2003).

According to Freeman (1994) ST denies to identify how to achieve the required trade-offs in these conflicts of interests, they leave the managers with a theory that makes it difficult for them to make decisive decisions. Watkins (2003) claimed that the real reason for the financial scandals in businesses nowadays is the failure of the managers to take into consideration stakeholder claims in decision-making. Moreover, Adams (2002) noticed that several governments establish new rules and regulations to create a balance between the interests of all stakeholders with corporate conduct giving example of the Sarbanes-Oxley Act (SOX) that was taken because of the failure of Enron and WorldCom.

Wheelen and Hunger (2002) claimed that the selection of wealth maximization as the corporate scorecard, should be completed by a corporate vision, strategy and tactics that tie stakeholders with the business in its fight for supremacy in a competitive field. Freeman (1994) also demonstrated that a business could not achieve wealth maximization if it disregards the stakeholder’s interest in the long-term.

The researcher in this study used the ST, as it is important to analyze and recognize how the concerns of all stakeholders into their decision-making processes and to specify the important board of directors’ structures to achieve wealth maximization in the long-term.

2.2.3 Stewardship Theory

Donaldson and Davis (1991) presented the STT as an alternative to the AT. They assumed that from the view of managerial incentive by assuming that management far from being an opportunistic shirker desires to do a good job, to be a good steward of the corporate assets. The main idea of this theory is that it claims humans to be in larger necessity than the neo-classical view in the sense of them to be opportunistic, dishonest and concentrated on personal interests. Thus, it is perceived that the attitude of the management is organization focused (Arthurs & Busenitz 2003), whose basic goal is to develop and enhance the performance of the business by satisfying its rules. The STT assumes that both the principal and the steward interests are associated. Its usefulness is increased when the stewards’ objectives are coordinated with the objectives of the principals (Arthurs & Busenitz, 2003). The STT holds that agents are opportunistic but that human incentives are more than just self-actualization. Thus, agents that are motivated by organizational and collectivistic motivations have a greater usefulness by directing for objectives that are the best interest of the business that usually in consistent with the principal`s interest (Bender, 2011). This setting is achieved more willingly where the CEO is also chair of the board.

This theory assumes that control and monitoring that are presented by the AT interfere with the steward`s motivation. This could decrease the firm`s productivity and stimulate opportunistic behavior. Because there is no conflict of interests between the principal and the steward in this theory, the agents receive authorization and independence from their principals. This will lead to increasing firm`s productivity and efficiency.

2.2.4 Resource Dependency Theory

This theory stands on the argument that the firm`s ability to save itself against the external environment and reduce uncertainty can be supported by the hiring of non-executive directors on the BD of the corporation (Casciaro and Piskorski, 2005). The resource role is played by BD basically by supporting their social and professional networks, advise, legitimacy, reputation, and enriching the channels of communications in order to decrease the uncertainty of outside influences in order to confirm the existence of resources important to their existence and development that are considered strategic resources. So that, the board is considered an important tool that may ease access to various resources and competencies needed for success of the business. In order to acquire these basic and essential strategic resources, the business depends on individuals and businesses within its environment that are called “Stakeholders”. This theory assumes that an organization surpasses to maximize shareholders’ value and to accomplish the interests of shareholders’ wealth maximization (Tricker and Tricker, 2009).So that, the businesses select efficient directors and members “Supporters” who have the competencies and capabilities of investing their counsel, knowledge, and channel of communication with external businesses in order to acquire preferential access to commitments or support from significant actors outside the business (Tricker and Tricker, 2009).

The researcher in this study used the resource dependence theory, as it is important to analyze and recognize how the board interlocking affects financial performance.

2.3 The Principles Underlying an Effective Governance System

The OECD has issued general pillars of corporate governance since 2004 that underlie the effective corporate governance system to suit all countries (Palestine Capital Market Authority, 2012). These principles are discussed here below.

2.3.1 The First Principle: Shareholder’s Equity

Governance rules focus on protecting the rights of shareholders via a set of mechanisms and means that protect the rights of shareholders. Among the most important of these mechanisms was also indicated by "the existence of methods and mechanisms to ensure ownership registration, and transfer of shares ownership, obtain information about the company on time and regular manner, and participate and vote in public meetings." For shareholders, electing members of the BD, and obtaining shares of the company's profits (Al-Abd, 2006, p.14).

The governance rules also stressed the need for shareholders to exercise their right to vote and stand for election of the board, and to have access to sufficient information regarding the decision-making process related to fundamental changes in the corporation which could affect the market value of the stock in the financial market. Board of director must inform shareholders of any amendments or changes in the internal system and founding contract of the corporation. Moreover, board is responsible in providing information to all shareholders in the event that the corporation offers new shares for circulation, whether in public subscription or private subscription. In addition, encourages shareholders to attend and participate in the meetings of the corporation’s general body, and determine the meeting agenda before specific period of meeting according to the instructions of regulatory authorities. In Palestine, the instructions are of the Palestine Capital Market Authority governing the meetings of the General Authority for corporations (Code of CG in Palestine, 2009).

2.3.2 The Second Principle: Equal Treatment of Shareholders

The pillar of equal treatment for all shareholders is considered one of the most important rights confirmed by the OECD. This principle is of most important rights to preserve the rights of small shareholders from the presence of controlling shareholders where the governance policy and governance guide, and the list of tasks of the BD should emphasize the need to provide equal treatment to all shareholders. The CG Manual should also ensure that all shareholders have the opportunity to obtain effective compensation in the event that the corporation's BD or executive management violates any rights affecting shareholder's rights and there must be equal treatment for all shareholders belonging to the same category. There is an equal treatment for all shareholders who have an equal number of shares, and investors have the right to grant a power of attorney or authorization to others to represent them in the meetings of the general assembly, and the right to vote on any decisions that are made or elect members of the BD. Moreover, it must include the processes and procedures related to the general meetings of shareholders' equal treatment for all shareholders. In addition, the company's actions must not result in difficulty or an increase in the cost of the voting process. Trading in shares in a manner that is not disclosed or transparent should be prohibited, and board members or executives should be required to disclose the existence of any interests of their own that may relate to operations or issues affecting the company (Sullivan, 2006).

2.3.3 The Third Principle: The Role of Stakeholders in Governance

The recommendations of the OECD stipulate the need to provide protection and safeguard the rights of all stakeholders in the corporation in the light of the decisions and instructions issued by the board and supervisory authorities. In addition, that the guide and policy of the institutional governance of the corporation include enhancing cooperation with stakeholders in the field of wealth creation and enhancing employment opportunities. Moreover, caring for social responsibility, enhancing the moral values of all employees of the corporation, and working to enhance the sustainability of existing projects in society by providing adequate and necessary financial resources for these projects are also recommended. More recommendations include ensuring that the rights and interests of stakeholders in the corporation, and compensation must be provided to stakeholders in the event of harm to their interests because of default or exploitation by members of the BD or executive management in the corporation. Moreover, care must be taken to provide specific and clear mechanisms for the participation of stakeholders in making decisions related to their interests and provide tools and mechanisms for oversight and accountability actors on the work of the board of directors, its committees, and the executive management. In addition, the need to have the opportunity to obtain and access all the information that stakeholder need in a timely manner with objectivity, integrity, and transparency, and without any injustice in this information and data (Rahma, 2007).

2.3.4 Fourth Principle: Disclosure and Transparency

The principle of disclosure and transparency is an important principle that must be included in the institutional governance policy of the corporation and the governance guide, and in the BD and its committees. So that the disclosure includes the annual financial statements, future plans of the corporation, any changes in ownership rights, any important decisions, salaries of the general manager and the senior executive management of the corporation, the compensation due to the members of the board of directors, the number of board meetings, the number of board members, any amendments or changes to the internal system or the founding contract of the corporation. In addition, it includes the names of the members of the board of directors, the names of the executive management of the corporation, the statement of the financial endowment of the corporation, the method of taking decisions, determining the goals and strategies of the corporation, the statement of the right of the majority in terms of contribution, voting rights, the appetite for risks accepted by the BD and a statement of the organizational structure to the corporation. The information should be prepared and reviewed as well as disclosed in a manner consistent with the accounting and financial quality standards, and that method should meet the non-financial disclosure requirements. Moreover, the corporation should allocate a website that is concerned with the disclosure of the corporation information, such as targets, values, the principles, disclosure of financial statements and reports, and a summary of the work of board meetings (Yousef, 2007).

2.3.5 Fifth Principle: Responsibilities of the Board of Directors

The Guide of CG must clarify the qualifications and experiences that should be available in the members of the BD. Such as list of tasks, duties and responsibilities assigned to the members of the BD. It must clarify how the board is convened, and determine its relationship with the external auditor, and oversight departments, especially the internal audit department, and government agencies. In addition, it must clarify the repeated tasks of the BDs, and the follow-up mechanisms of the corporation's executive management, and ensuring that there are accountability mechanisms for members of the board and its committees through the annual evaluation of the effectiveness of members and committees. Moreover, the evaluation of some board member's actions, proposing any amendments or new developments in the corporation's environment, and specifying mechanisms and how to take decisions, and the necessity of achieving equal treatment for all shareholders should be emphasized. Moreover, the BD must ensure compatibility with the laws in force. "and taking into account the interests of all stakeholders. The BD has a set of basic functions, including reviewing and directing the company's strategy, business plans and risk policy, annual budgets, and activity plans, setting performance goals and following up on the implementation and performance of the company, as well as overseeing capital spending and anywork acquisition, sale of assets, selection of key executives, determination of salaries and benefits granted to them and follow-up when necessary their replacement and follow-up of succession plans. Reviewing the levels of salaries and benefits of executives and members of the BD and ensuring the formal nature and transparency of the nomination process for members of the board of directors" (AL-Taqez, 2007).

2.4 Objectives of the Corporate Governance

The existence of effective CG policies and controls also contributes in increasing the ability of these companies to borrow and reach lending centers and institutions to obtain adequate financing in an accessible and without complications. As well as, the ability to enter foreign markets and attract foreign investors, which positively affects the investment movement and the overall performance of the country reflected in GDP.

Abu-Baker and Naser (2000) indicated the existence of a set of goals that institutional governance seeks to achieve in the corporations, “to enhance and increase the level of confidence of shareholders and savers in the national economy and public joint-stock companies listed in the financial market, which contributes to advancing investment, and providing an appropriate investment climate for investors, preserving the rights of shareholders and investors".

The Guide to the Rules and Best Practices for Banking Governance in Palestine No (10) for the year 2017 identified a set of goals for institutional governance represented as “Achieving transparency and disclosure, protecting the rights of shareholders and depositors, enhancing the role of risk management and facilitating the process of monitoring and supervising the performance of banks by setting frameworks, internal control, formation of specialized committees, increasing the bank's market value, maximizing profitability, enhancing trust with related parties with the bank, reducing risks of financial crises to banks, controlling risks of corruption in banks, and maintaining financial and economic stability" (Palestine Monetary Authority, 2017).

CG aims to achieve a set of goals that are represented in maintaining transparency and justice and protecting the rights of shareholders in the company.This is done by creating rules, regulations and controls aimed at achieving transparency and fairness, and creating controls, rules and administrative structures that grant the right to hold the company's management accountable before the general assembly and guarantee the rights of shareholders and the development of investments and their flow by deepening the confidence of investors in the capital markets, working to develop savings, raising investment rates and guaranteeing funding for projects, thus creating new job opportunities. In addition, it aims at working to achieve good FP by holding management accountable to shareholders, and imposing good and effective control over the performance of economic units. Lastly, the aim is to achieve developing and improving the competitiveness of economic units, and work to fight unacceptable behavior, whether in the physical, administrative or moral aspect, and to attract investments, whether foreign or domestic, and to limit the flight of national capital abroad through the provisions of supervision, legislation and procedures regulating the market, and fighting internal corruption about the way of researching its causes, limiting them and not allowing it to continue.

2.5 The Main Characteristics of an Effective Governance System

There must be a set of characteristics in the system of institutional governance in order to be an effective system, where the system of CG must be characterized by discipline, transparency, independence, accountability, justice, and adopt appropriate implementation of social responsibility (Rimawy, 2008). Details are following.

1- **Discipline**: AL-Abed (2006) defines discipline as “the moral obligation to which a member of the BD adheres to his behavior and practice towards investors and stakeholder’s incorporation, which effectively contributes to achieve the goals of the stakeholders, and the inclination to exploit the stakeholders in the company ".

2- **Accountability**: Governance is based on its principles and foundations on work to enhance accountability by holding the company’s BD accountable for the company’s performance in a comprehensive manner, and the top executive management accountability for the board of directors. Moreover, it is necessary to define many mechanisms through which accountability is achieved in the company whether through reports the various executive management and / or oversight departments report to the board of directors, internal audit reports, and work procedures. In addition, obtain the necessary approvals from the BD in cases that require the approval of the BD or board committees. (Sullivan, 2006).

3- **Transparency**: Transparency means that "the ability to provide a clear picture of what the company does to stakeholders and shareholders, and that this information is characterized by the quality of the data that is disclosed”. Transparency is one of the foundations to be considered in order to achieve the competitive advantage and improve the competitive position of the corporation in order to enhance and consolidate the confidence of stakeholders and shareholders in the BD and the executive management. Transparency needs the work on providing information that ensures the achievement of economic efficiency, and that gives members of the BD the ability to take appropriate calls in achieving the interest of shareholders in an effective and efficient manner. Transparency gives the shareholders the opportunity to examine companies carefully (Hammad, 2005).

4- **Independence:** Independence means that a member of the BD has a good level of independence, and that he is not subjected to pressure from certain parties, and thus works to achieve the interest of one party at the expense of another. That the member of the BD is able to take decisions and vote without being pressure exerted on him (Sullivan, 2006).

5- **Justice**: Shabrashawi (2007) defined justice as "the commitment of the members of the BD and the executive management to respect all the rights of stakeholders in the company, and a permanent commitment to achieve parity and reconciliation between the various stakeholders in the company".

6- **Social Responsibility**: Social responsibility is achieved through the adoption of the BD to implement the provision of funding for many youth and women's projects, attention to the marginalized and poor class of society, people with special needs, financing sports, cultural, and, recreational activities, and the active contribution to the development of society where companies by allocating part of its annual budget in order to support such projects.

2.6 Research Hypotheses Development

2.6.1 Financial Performance (FP)

Profitability ratios are commonly utilized to specify how well business use their assets and how they manage their activities and operations (Ross et. al., 2009) These profitability ratios express the income or operating success of the business. Thus, creditors and investors are involved in assessing profitability as income demonstrates the capability of the business to access debt and equity financing. Furthermore, it indicates the firm`s liquidity position and its capability to expand (Weygandt et al., 2010).

There are several variables that can be utilized to measure corporate FP that can be derived from the financial statements such as ROE, ROA, EPS (Earning per share) and Net Profit Margin, whereas stock valuation, stock market return and volatility in returns are utilized measurement of market

FP. Several researchers used a mix of both market performance and accounting measurement.

2.6.2 Explanatory Variables

The independent variables include a set of BI, board characteristics and OS mechanisms basically the independent variables will include BI, board size, number of board meetings, Duality (CEO / Chair Duality), women on boards, large ownership, Institutional ownership and foreign ownership.

2.6.2.1 Board Interlocking

A simple board interlock takes place when an individual works on the BD for more than one corporation. The other type is mutually interlocking relationships that occurs when at least two managers together serve on the boards of two various corporations. The third type of interlocking is reciprocal interlocking when the CEO of one corporation is serving on the board of a second company, whereas, the CEO of that second corporation is also serving on the board of the first one (Fich & White, 2005).

The corporate director interlocking is perceived as an important cooperative strategy between corporations for decreasing sources of uncertainty in their environments. Corporate interlocking is a tool or instrument of anticipating or controlling sources of uncertainty from potentially disruptive one-sided actions of other corporations (Allen, 1974).

Bezemer et al., (2007) argued that BI is important as it can provide advantages to corporations connected in a network and increasing FP of corporations by sharing their directors. On the other hand, the relationships of the BD can compromise the independence of non-executive directors and creating conflicts of interest. An extremely centralized and compressed network of directors can generate a social system in which the directors are faithful to each other and just act on shareholders' interest.

Mendes-da-Silva (2008), and Mendes-da-Silva (2011) revealed that there is a positive correlation between BI and the firm FP. Similarly, Mendes-da-Silva (2011) argues that there is a significant positive correlation between the BI and corporate FP. Likewise, Kaczmarek et al., (2014) investigated the impact of board of director's interlocking and FP of the financial and utility corporations listed in UK over a period of ten years. The study results demonstrated that there is a positive correlation between the two variables.

Pombo and Gutiérrez (2011) revealed that there is a positive correlation between external directors, the extent of BI and ROA in Colombian corporations. Moreover, they revealed that there is a positive association between external directors that are interconnected with other corporations and firm`s performance. Thus, there is a positive correlation between interlocking and firm`s financial performance. Likewise, Kim (2005) explored the impacts of the interlocking of the board of directors on the financial performance of corporations of Korean corporations and revealed that there is a positive relationship between interlocking and corporate financial performance measured by ROA.

Interlocking is a vital mechanism for corporate control; interoperate interconnection and resource dependence (Mizruchi, 1982). Furthermore, Schoorman et al., (1981) assumed that interlocking directors are vital tool for providing horizontal coordination between the different competitions, vertical coordination between suppliers and customers, expertise and improvement of brand name and recognition of the business.

There are several opinions that support the positive effect of interlocking on firms` FP. One of the most important theories that explained the effect of BI on firm`s performance is the resource dependency theory as this theory argued that the basic basis for the viewpoint that interlocking directors affect positively firm`s FP. The basic argument that BI is important to provide businesses to access required resources and information to develop and ease the FP of firms (Westphal et al., 2006).

Furthermore, a board interlock indicates the business aptitude to provide important resources and competencies. For example, Lang and Lockhart (1990) revealed that board interlocked with financial firms increased with financial dependence. According to Hillman, et al., (2000) the businesses are more expected to hire resourceful outside directors throughout times of environmental instable and turbulent condition.

Furthermore, Carpenter and Westphal (2001) revealed that external directors can play an important role to the decision process if they are attributed to strategic attributed businesses. Furthermore, Inter-locking directors is important in organizations in order to ease a business`s borrowing, coalition construction and have been attributed with efficient capital acquisition (Stearns & Mizruchi 1993).

Resource dependency theory assumes that interlocking directorates is important to work as carrier of information (Useem, 1984). Furthermore, directors who work in the other firm`s boards are more expected to have better access to different policies and strategies and insider information that is else not accessible to external investors and stakeholders. They are expected to offer better direction and advice. Furthermore, Westphal (1999) demonstrates that there is a positive association between advice offered by external directors and the FP of the business. This argument is in an agreement with the survey findings of the 2012 Spencer Stuart Board Index that demonstrated that "board directors consider their role in discussing corporate strategy one of their top priorities in governance issues" (Westphal, 1999, P.7).

Thus, based on the resource dependence theory, interlocking directors support coordination among firms and decrease environmental instability and uncertainty in the organization (Pfeffer & Salancik, 1978). So that, interlocking is an important mean of transmitting serious information and best practices (Hillman & Dalziel, 2003). Furthermore, interlocking is also an important tool to decrease opportunism by increasing the potential of the flow of information among businesses.

Another important theory that explored the influence of interlocking on the FP of businesses is social network theory that has been practical in research on interlocking directors. It assumes that businesses that are entrenched in the director network can enhance better social relations and thus ease economic exchanges, leading to better FP for the business (Granovetter, 1985). So that, board interlocks are an important tool for businesses to connect businesses together. Businesses that are entrenched in the director network can gain the advantages of social capital that are not accessible to businesses outside of the network.

Research has revealed that board-interlocking directors are attributed with the future performance of businesses (Horton et al., 2012). Another important argument is that a director that serves on several boards can express his or her quality especially in monitoring and advising responsibilities and roles (Kaplan & Reishus, 1990). So that, increasing the number of directors interlocking in the business, will enhance the quality of the BD and so that will lead to better FP.

Drago et al (2015) explored the influence of CG reforms on interlocking directorship for the Italian companies listed on the Italian stock exchange over 1998-2007 through using a set of unique datasets that includes CG variables relevant to the, interlocking directorships and attributes relevant to corporation`s performances. The study results demonstrated that there is a negative relationship between interlocking and FP.

Santos and Da Silveira (2007) revealed that there is a negative relationship between board interlocking and the firm`s value measured by Tobin's Q in Brazilian companies.

On the other hand, several scholars and researchers claimed that there is a negative relationship between BI and FP. According to Fligstein and Brantley (1992), interlocks decrease FP as it imposes higher costs on firms as the interlocking directors do not have adequate time to attend all board of directors' meetings and discussions. Besides, other researchers argued that external directors with several directorships are attributed with weak CG (Fich & Shivdasani, 2005). Thus, busy directors may affect negatively the firm`s performance.

Arguing that interlocking directors convey information and practices, it is not merely the best and good practices that are spread, but likewise the bad practices. For example, interlocking directors have been demonstrated to spread preferences backdating (Armstrong & Larcker, 2009); (Bizjak, et. al., 2009). Thus, when negative practices are spread, FP of the business will suffer. Eventually, businesses that are interlocked with businesses that are blamed of uncertain practices may suffer from reputational consequences as well. Thus, most of the studied demonstrates that there is positive and significant effect of board interlocking on financial performance of listed companies, therefore, hypothesized then at:

H1: There is a significant positive relation between BI and firm`s performance

2.6.2.2 Board Size

The BD is the body that is responsible of controlling and monitoring a senior executive management practices and activities. Besides, it makes strategic decisions relevant to the optimal corporate capital structure as corporations use leverage as a governance instrument to mitigate the conflict of interests between the agents and principals by reducing the agency costs of free cash flow that is available to executive management (Wen et al., 2002).

Board size refers to the number of directors on the board. In general, there is no optimum size of the board documented in any universal standards. Palestinian Code of CG stated that the members of the BD of the listed corporations must not be less than five and not exceed eleven directors. According to Abdelzaher and Abdelzaher (2019) who investigated the impact of board size on corporate FP in (114) Egyptian non-financial corporations listed in Cairo Stock Exchange market in 2013 that there is a positive correlation between the board size and FP of corporations.

Some researchers argue that a larger board size is better since allows more diversity of competencies and skills. On the other hand, increasing board size may lead to intensifying the challenges of coordination and communication, decreasing board of directors` efficiency in controlling and monitoring agents (Eisenberg, Sundgren, & Wells, 1998). Moreover, increasing board of director’s size decreases the potential and aptitude of directors to disapprove and criticize senior executive management and to analyze corporate FP efficiently (Lipton & Lorsch, 1992).

M. C. Jensen (1993) argued that large board of directors` size is more expected to confront high costs to control and oversight the corporation and they are less expected to have efficient function when the board size is larger than (7-8) directors.

Zayed (2017) explored the association between board size and FP revealed that there is a positive correlation between board size and FP of listed corporations through using ROE (Return on Equity) and Tobin's Q. Similarly, (Delima & Ragel, 2017) revealed that there is a positive correlation between size of the board and FP of the business in Financial Institutions in Batticaloa district. On the contrary, Le, Kim and Yi (2014) studied the impact of CG on the large private enterprises` performance in Vietnam. The researchers found that increasing the board of directors' size is badly related with performance irrespective of performance measures.

Arosa et. al., (2013) and Yawson (2006) revealed that large BD is important to create and offer wider variation of backgrounds, diversity in communications skills, and experience and business contacts outside the corporation.

Dalton et al., (1998) argued that larger BD gives the opportunity for directors to exchange more highly qualified counsels and brings greater scope for the opportunity of association with diverse external linkages.

Moreover, large BD acts an essential role in increasing the consequences of the decisions as a result of sharing of ideas and influences that provide the senior executive management with recent and innovative ideas and opinions that might lead to decrease in the agency problem which in turn increases corporate FP (Patro et al., 2003).

Anderson et al., (2003) show that there is a negative correlation found between the corporate board size and the FP and corporate firm value. They stated that financial markets respond positively to the declaration of a board downsizing. on the other hand, the declaration of increasing the size of the BD will lead to decreasing the equity value. They argued that this is not the common outline that can be used to all corporations, as it is not a linear reaction. They revealed that the businesses who were influenced negatively with SMEs, whereas large-scale corporations did not face the same problem.

Yermack (1996) found that there is a negative relationship between the board size and firm FP, measured by Tobin ‘s Q for (452) large scale US corporations throughout the period 1984 to 1991. The researcher excluded the utility and financial corporations from the studied sample due to the government regulations adopted by boards of directors in such corporations. The research documented that a small board has more favorable values for financial ratio. Likewise, (Yermack, 1996) argued that the incremental cost will rise as long the number of board member’s increases, and the corporation will achieve greater market value if the number of the board is smaller. He stated that businesses are more valued in the capital markets by examining various independent variables, for example board composition, the existence of development and growth feasibilities, diversification and corporate age.

According to Blue Ribbon Committee (1995), the BD has to be small enough to have detailed debate. Some researchers claimed that large BD has more aptitude to use more monitoring and advice (Coles et al., 2008). Likewise, Vu and Nguyen (2017) explored the impact of board size on FP in listed Singaporean companies. The study results demonstrated that there is a negative association between board of director's size and corporate performance. Bhagat and Black (2001) revealed that there is a positive relationship between increasing the number of directors and increasing corporate FP. It is, therefore, hypothesized that:

H2: There is a significant positive relation between board size and firm`s Financial Performance.

2.6.2.3 Duality (CEO / Chair Duality)

CEO duality refers to the situation when same person occupies the CEO and board chair positions in the company. CEO duality is an important board of directors' variable that affects agency problem. According to the AT, the separation of the CEO and the chairman plays an essential role in increasing the efficiency of the BD and confirming existence of board independence from the executive management in the corporation that is expected to increase firm`s FP due to enhancing monitoring and controlling (M. C. JENSEN, 1993). Conversely, STT assumes that separation decreases the FP of the corporation. As this theory argued that, the efficient management is based on the principle of the unity of command. Since as when responsibilities and decisions are in hand of one person so this might ease better recognition of the business activities and rationale better decisions that will decrease the agency costs and it will so increase the FP of the corporation (Mallette and Fowler, 1992).

Dal Vesco and Beuren (2016) explored the formation of the BD on FP of Brazilian corporations. The study results demonstrated that there is a positive correlation between CEO duality and corporate FP. This study will follow the main stream literature and hypothesized that:

H3: There is a significant negative relation between duality of CEO and firm`s Financial Performance.

2.6.2.4 Women on Board

Abdelzaher and Abdelzaher (2019) explored the impact of the existence of women in the composition of the BD on FP on a sample of (114) Egyptian corporations that form active Egyptian non-financial corporations with data available for the year 2013. The researcher analyzed the impact of corporate size, women in BD and industry. The study results demonstrated that there is a positive significant relationship between percentage of women on board members and corporate value measured by return on equity. The study results demonstrated that there is positive impact of female board membership on firm`s FP as measured by Tobin Q, even though the women face several challenges in their effort to access the director's position in corporations.

Abdeljawad and Masri (2020) explored the effect of board of directors' characteristics on the FP of companies listed in Palestine Exchange (PEX) throughout the period 2012-2014. The research revealed that there is positive association for board duality, board gender diversity, and number of board meetings with financial performance. On the other hand, they found a negative relationship of board size, board independence and board academic background with financial performance. The main implication of this study is that the Board of Directors plays an essential role in enhancing the financial performance of businesses through empowering executives that leads to higher levels of financial performance, an agreement with the stewardship theory

Rose (2007) claimed that board diversity becomes an important issue within CG where several researchers interested to ascertain the influence of board of directors` on corporate FP. The researcher selected a sample of listed Danish corporation throughout the period of 1998–2001 in a cross-sectional analysis. In spite of the reality that Denmark has gone very far in the liberalization of women, boards of directors in Danish corporation are still to a great extent controlled by men. It is hypothesized that:

H4: There is a significant positive relation between women in the board and firm`s Financial Performance.

2.6.2.5 Number of Board Meetings

Number of board meetings held every year measures the effectiveness of the board of directors. According to Ntim (2009) there is a positive correlation between the efficiency of the BD and corporate FP. Still the efficiency of the BD is specified by the directors` competencies, skills, knowledge qualifications and whether the board is being paid for the meetings (Hassan, 2016).

Finkelstein and D'aveni (1994) argued in light of the AT perspective. that the BD has an essential role in monitoring, running board meetings, confirming that all the matters that relevant to the business are listed in the agenda to be discussed in the board meeting, hiring and firing, and replacing the CEO if the latter is deemed to be ignored in serving the interests of the shareholders.

Eluyela et al. (2018) studied the impact of board meeting frequency on FP of the corporation of deposit money banks in Nigeria through using a panel data. The research results indicated that there is a positive significant relationship between board meeting frequency and corporate performance. The main implication of this seminar that banking sector institutions` management have to increase the board meetings frequency to at least four (4) meetings annually. Likewise, Qadorah and Fadzil (2018) investigated the role of internal CG tools relevant to the board of directors’ features definitely (board independence and board meetings frequency) and corporate performance in Jordanian listed firms. The researchers used the cross-sectional data for the year 2013. The researchers selected a sample of (64) manufacturing corporations. The researchers used ROA as a proxy for corporate FP.

Aryani et. al., (2017) explored the correlation between board meeting frequency and FP of the corporation measured by ROA in Indonesian corporations with the impact on company performance. The studied sample consists of corporations listed in the Jakarta Islamic Index throughout 2006-2016. The researcher selected (175) observations. The researchers used the purposive sampling selection method. The study results show that there is insignificant relationship between board meetings frequency and the FP of the corporation.

Al-Daoud et al., (2016) examined the relationship between board meeting frequency and FP of industry and service sectors corporations listed on the Amman Stock Exchange throughout 2009-2013. The study results demonstrated that there is a positive significant relationship between the board meetings frequency and their FP. Likewise, Hoque et. al., (2013) investigated the effect of board committee meetings frequency and FP of Australian corporations. The research results demonstrated that there is a positive correlation between audit committee meetings frequency and remuneration committee meetings with ROA and ROE. However, there is insignificant relationship between the risk committee meetings frequency and Australian corporations' FP.

Zabri et al., (2016) argued that the board of directors is the most vital instrument of CG as it plays an important role in all businesses. The construction of the BD is influenced by the frequency of the board meetings. Every person in the board of director is expected to attend and participate efficiently in these meetings.

Al-Manaseer et al., (2012) stated that the frequency of the board of directors' meetings is an essential indicator for the efficiency of the board of directors. As the increase in frequency of meetings affects positively the corporation`s FP as the increasing number of board of directors' meetings acts an essential role in enhancing the efficiency of the BDin monitoring and controlling the senior executive management.

Rodriguez-Fernandez et al., (2014) examine the effect of internal governance structure and FP of listed Spanish corporations. The researchers analyzed the efficiency of the BD through using a number of variables that included corporate size, composition of the board of directors, duality of the chief executive officers, frequency of annual meetings and busyness of the directors. They used ROA, ROE and Tobin's Q as proxies of FP of the corporations. The result revealed that there is a negative correlation between the frequency of the board of directors' meetings and FP. It is hypothesized that:

H5: There is a significant positive relation between Number of Board Meetings and firm`s financial performance.

2.6.2.6 Large Ownership

Large ownership is the percentage of owned shares by five largest shareholders to total outstanding shares. Another important definition of large investors is the investors or shareholders who have a 5% or more in a specific corporation (Puspitaningrum & Atmini, 2012). This attribute indicates up to what extent the ownership is dispersed among the investor and owners of the corporation. The corporate ownership might be dispersed or diluted among large number of shareholders and investors or the ownership of the corporation in hand of small number of owners and shareholders that leads to concentration of firm`s ownership.

According to Jensen et al. (1976) increasing ownership size may stimulate the prioritization of self-interest by large investors and so that expropriation of the resources and competencies of the organization that leads to increasing conflict and reduced corporate FP. Conversely, Brown (2011) claimed that from the effective controlling viewpoint, large investors who have large percentage of shares have the aptitude and the motivation to exercise control and to induce the corporate management to adopt practices and decisions to decrease the conflict to increase the wealth of investors in the corporation. So that, enhancing firm`s performance.

Shahrier et al., (2018) explored the relationship between ownership concentration, board characteristics and companies’ performance among Shariah-compliant companies through investigating (200) large scale companies listed on the Kuala Lumpur Stock Exchange during the period of 2014- 2017. The researcher studied the impact of ownership structure, board independence, board competence, firms’ characteristics, and debt structure on FP of these corporations studied using ROA and ROE. The study results demonstrated that there is positive association between ownership concentration and corporate financial performance. Besides, existing of external chair and independent board members with an educational level greater than a BA degree affects positively the FP of the corporation whereas, there is a negative relationship between CEO duality (BCEO) and financial performance.

According to García-Ramos and García-Olalla (2011), there is a positive correlation between the corporations that are characterized by having large shareholders and firm`s profitability as increasing the concentration of the ownership will lead to better FP.

Shleifer and Vishny (1986) revealed that when the nature of the OS is highly focused, large and controlling investors play an important role in decreasing the agency risks as they have the motivations and competencies to control and supervise the senior management for the mutual benefit of control that is achieving and protecting all the shareholders` interests either for large or small investors.

Demsetz and Lehn (1985) noticed that as corporate ownership becomes more concentrated, the extent to which benefits and costs are tolerated by the same holder rises. Therefore, large shareholders` companies are more expected to be efficient in CG to inhibit information asymmetry between principals and agents because of their larger ownership in business, and the more risk hold by their larger ownership. So that, if agency costs declined, it is highly expected that investors will achieve higher levels of profitability and FP.

It is noticed that corporations in developing countries have higher levels of blockage or large shareholders or investors in listed corporations and there is low level of protection for small investors. This indicates that there is high potential for principals to monitor and control agent's practices and decreasing managerial opportunism (Shleifer et al., 1999; Shleifer & Vishny, 1997)

According to Alchian and Demsetz (1972), large ownership is an important tool to control management and prevent managerial opportunism. Besides, it is an important tool to alleviate agency risks within the corporation. They argued that large investors are important to specify the wealth of shareholders, achieving corporate objectives and enhancing the compliance and discipline of senior executive management. So that, large shareholders are an important tool to monitor and control senior management and thus increasing the firm`s profitability and wealth maximization.

According to Morck et al., (1988) the dispersion of corporate ownership among large number of investors and shareholders may lead to decreasing the level of monitoring and controlling over the senior executive management and thus that manipulate the interest of investors and shareholders to achieve their personal interests and objectives. Conversely, the existing of dispersed ownership is important to prevent the likely for forming a structure that is big adequately to over control management.

According to Rowe and Davidson (2002) there is an insignificant correlation between large ownership and firm`s profitability and FP. However, Sanda et al., (2005) demonstrated that there is a positive correlation between concentrated ownership and firm`s FP and profitability. It is hypothesized, following most literature that:

H6: There is a significant negative relation between the large OS and firm`s FP.

2.6.2.7 Institutional Ownership

Institutional ownership is an important attribute to indicate the nature of ownership composition in corporations. It indicates the total portion of equity that is owned by institutional investors. According to Hassan (2016) a large portion of institutional investors and ownership concentration characterize ownership structure in Palestinian listed firms. He confirmed that institutional investors hold 52% of Palestinian corporation. Furthermore, Fama (1980) stated that institutional ownership affects firm`s FP and maximization of the owners and shareholders` wealth.

Shleifer and Vishny (1986) the external block owners have the aptitude to get rid of controlling managers` problem. Furthermore, the large block investors may increase the efficiency of takeover tool by overwhelming the problem of free rider that takes place from the inadequate of shareholders` control. Berger and Udell (2003) revealed that there is a positive significant relationship between institutional ownership and FP of the corporation. Whereas, Wan (1999) revealed that there is a positive direct significant correlation between institutional investors and firm`s FP.

Koh (2007) stated that institutional investors are specialized money managers who have rationale control and monitoring over corporation’s resources and assets that are mutual funds, insurance institutions, bank trusts and pension funds. He argued that there is a positive correlation between institutional investors and FP of the business as the existing of institutional investors allow the company to manipulate more investment opportunities and to increase the efficiency of corporation`s controlling and monitoring. Furthermore, institutional ownership gives the corporation more potential to accomplish such advantages in the interest of the firm`s value. It is argued that firm’s ownership acts an essential role in enhancing the control and monitoring over the firm`s executive management based on the percentage that they hold in the corporation. Thus, it is interesting to focus on their obligation as a fiduciary responsibility to oversight and monitor the business concerning their holding (Mallin, 2001).

Holding large stake in the corporation inspire them to be more effective in inducing the management strategies and policies to develop the performance of the corporation (Cremers & Nair, 2005). Likewise, Davis and Steil (2001) stated that corporation’s ownership that has characteristics for instance: risk diversifications; favoritism of liquidity and the capability to control large size of businesses because of their large ownership of shares.

Shleifer and Vishny (1986) claimed that institutional investors act an essential role in influencing the management decisions. They argued that small investors, who are often individual investors, prefer their profits in the form of capital gain. On the other hand, institutional investors prefer to receive dividends due to tax purposes. Thus, firms` ownership have the inspiration to collect evidence associated to the corporation to oversight the management, thus, decreasing agency costs and so uprising corporation value (Grossman and Hart, 1980). On the other hand, Hart (1995) indicated that there are two essential problems from holding large stake of ownership in one corporation as ownership of large stake will decrease the potential to invest outside the corporation this indicates that corporation's ownership will decrease the potential to diversify the investment opportunities among various investment opportunities. Besides, corporations may improve the agency problem but they cannot eliminate it. Likewise, according to Berger and Udell (2003) there is a positive significant correlation between institutional investors and FP of banking sector institutions in USA. They claimed that institutional ownership is important to enhance controlling and monitoring that decrease agency costs and so that enhancing firm`s FP. It is, therefore, hypothesized that:

H7: There is a significant positive relation between institutional ownership and firm's financial performance.

2.6.2.8 Foreign Ownership

Foreign ownership is an image of OS that was used considerably in the literature to explain the corporate FP as those investors are expected to have more experience, competencies and aptitude than local investors do. Foreign ownership is the percentage of the company shares owned by foreign investors. Often, those investors conduct a detailed analysis before taking the investment decision in the country and they search for efficient investment opportunities. They are anticipated to bring in the recent technologies that give the opportunity for corporations to achieve better levels of performance (Kumar, 2004).

Sarkar and Sarkar (2000) note the contradictory outcomes as some of the scholars revealed that there is a positive correlation between foreign ownership and firm FP and corporate value. Mangena and Tauringana (2007) revealed that there is a positive association between foreign investment in Zimbabwe and firm`s FP. Conversely, other researchers revealed that there is a negative relationship between the two variables (Sarac, 2002).

Hamdan (2018) investigated the influence of BI on corporate FP through mediating the impact of foreign ownership in Saudi Arabia. The study results confirmed that there is a negative relationship between the number of interlocks per director and the firm`s performance. This thesis hypothesized that:

H8: There is a significant negative relation between foreign ownership and firm`s financial performance.

2.6.3 Control Variables

Besides, the independent variables the model will also use some control variables that can influence FP: firm size, and leverage as discussed below.

2.6.3.1 Firm Size

Isik et al., (2017) studied the association between corporate size and FP in (112) manufacturing companies in Turkey throughout the period of 2005-2013. The study results demonstrated that there is a positive correlation between firm size and FP. The researchers measured firm size through several indicators that are firm's assets, sales volume and number of employees in the business.

Zeitun and Tian (2007) revealed that there is a positive correlation between firm size and corporate FP in the corporations listed in Jordan Stock Exchange Market through the period of 1989- 2003. In the study results researcher assumed that large-scale business has more ability to generate profits more than SMEs due to diversification and economies of scale.

Shen (2012) revealed that there is a positive correlation between firm size and FP in European countries. On the other hand, the study results demonstrated that there is a negative correlation in case of UK. He revealed that small firms tend to achieve better FP. Likewise, Chen (2011) used corporation size as a moderator. He claimed that the path from tax to capital structure is moderated by the firm size indicating that firm size considerably influences the capital structure and so that the corporate financial position. Besides, he claimed that large-scale companies enjoy the advantage to increase financing from banking and financing sector institutions that leads the tax deductibility of debt advantage.

Iavorskyi (2013) revealed contradictory result using logarithm of assets as a measurement of firm size as different performance proxies offer diverse results. Size and performance are positively and negatively attributed though using earnings before interest and tax margin to total factor productivity (TFP) as a performance proxy. On the other hand, they are negatively attributed, when ROA is used as a proxy. Likewise, Abor (2005) in his study in Ghana revealed that there is a positive significant relationship between firm size and firm performance. Likewise, Pouraghajan, Malekian, Emamgholipour, Lotfollahpour and Bagheri (2012) demonstrated that there is a direct relationship between firm size and FP in listed companies in Iran, through using the logarithm of assets as an indicator for firm size. Also, Abeywardhana and Krishanthi (2016) revealed that there is a positive effect of firm’s size on FP in the manufacturing sector SMEs in UK throughout the period 1999-2008. It is, therefore, hypothesized that:

H9: There is a significant positive relation between firm size and firm`s financial performance.

2.6.3.2 Leverage

In general, researchers use two proxies of corporate financial leverage that are either market leverage or book leverage. The book leverage refers to the book value of total debts of the corporation divided by the total book value of the corporation total assets. Conversely, the market leverage refers to the book value of total debt of the business divided by the book value of liabilities and shareholders` equity (Chakraborty, 2018). Total leverage (TLEV) is the total liabilities as a percentage of total assets. Whereas, short terms leverage (SLEV) is the ratio of the current liabilities that will mature with one year such as trade credit from the total assets and long term leverage (LLEV) is the percentage of the noncurrent liabilities from the total assets.

Fama and French (2002) using the theoretical results of pecking order theory and trade-off theory, found that there is a negative significant relationship between leverage and FP of the corporation. Moreover, they claimed that increasing firm`s size will affect negatively on the corporate financial leverage and on average a negative correlation between dividend payout and firm`s size. Likewise, Kochhar (1997) explored the relationship between strategic assets, capital structure and FP of the corporation, they revealed that there is a negative relationship between financial leverage and firm`s FP. Likewise, Khan (2012) explored the relationship between financial leverage and firm`s performance in (36) engineering corporations listed in Pakistan throughout the period 2003-2009, they revealed that there is a negative relationship between leverage and FP through using ROA, Gross Profit Margin (GM) and Tobin's Q as proxies of corporate FP. He claimed that coordination in engineering sector in general depend on short-term leverage with strong covenants that influence corporate FP.

Bambang et al., (2012) demonstrated that there is a negative correlation between corporate financial leverage and corporate FP at the Indonesian listed corporations through using a sample of manufacturing corporations during 2008-2010. Likewise, Ebaid (2009) revealed that there is a negative relationship between Financial Leverage (FL) through using short-term debt and firm`s profitability throughout the period 1997-2005 in non-financial listed corporations in Egypt, the study results revealed that there is a negative relationship between short-term debt and ROE. Other measurements of corporate FP such as, long-term debt to assets has insignificant impacts on gross profit margin as a proxy for firm performance.

Nassar (2016) explored the correlation between financial leverage and firm`s FP on (136) industrial corporations listed on Istanbul stock exchange, over a panel of data for eight years. The study results demonstrated that there is a negative correlation between ROA, ROE and EPS as proxies for corporate FP and debt ratio for capital structure.

Rajendran and Nimalthasan (2013) examined the relationship between the corporate FP and financial leverage in listed corporations of Sri Lanka through using four proxies for performance that are return on equity, return on assets, gross profit ratio and net profit ratio. The study results demonstrated that there is a negative relationship between excessive financial leverage and corporate FP.

Bauer (2004) investigated the case of (72) corporations listed on the Prague stock exchange during (2000-2001) in order to specify the relationship between leverage and FP. The study results demonstrated that there is a negative correlation between corporate FP and financial leverage. The researcher used the ROE as a proxy for FP, whereas he used total debt to total equity as a proxy for corporate FL. In consistent with this study, Zeitun and Tian (2007) investigated the correlation between financial leverage and corporate FP in Jordanian listed companies in Amman Sock Exchange Market during 1989-2003, the study results demonstrated that there is a negative correlation between leverage and corporate FP.

Chen (2011) examined the correlation between financial leverage and corporate FP in a population of (305) corporations listed on the Taiwan stock exchange in the 2009. The study results indicated that there is a negative relationship between leverage and FP of the corporation and this result is in consistent with Pecking order theory.

Shen (2012) investigated the effect of financial leverage on corporate FP in a number of European corporations that included Germany, France, Italy and UK. The study results demonstrated that there is a negative relationship between financial leverage and firm`s FP in companies in Italy, France, Germany and UK.

Rajan and Zingales (1995) explored the relationship between financial leverage and firm`s performance in the seven industrial countries that argued that relationship of capital structure and corporate FP did not change throughout the last ten years. Likewise, Pouraghajan et al. (2012) revealed there is a negative correlation between debt ratio and corporate FP in various industries that are listed on Tehran stock exchange during 2006-2010. The researchers used ROA and ROE as proxies for corporate FP. Other variables in the study included tangibility, sales growth and age of the business. The researchers found that there is a positive correlation between these three variables and FP of the corporation.

Domenichelli (2012) explored the relationship between corporate leverage FPs in small Italian businesses in the region of Marche during 1999-2008. The study results demonstrated that there is a negative and significant correlation between debt to assets as a measurement of financial leverage and corporate FP measured by ROE. This result is in consistent with pecking order theory. Similarly, Iavorskyi (2013) who revealed the correlation between financial leverage and corporate FP in non-financial firms listed on Ukraine during 2001-2010. The research results confirmed that there is a negative relationship between financial leverage and corporate FP. The researcher used ROA, operating profit margin and total factor productivity as proxies for FP.

However, a study of Majumdar and Sen (2010) revealed that there is a positive correlation between corporate FP and financial leverage in India during 1988-1993. Moreover, the study results confirmed that capital structure variables are insignificant except for fixed deposits that seem to have a direct significant correlation with corporate performance. Whereas, they revealed that excessive financial leverage decreases firm`s profitability and FP. Likewise, Ebrati et al., (2013) revealed that there is a positive correlation between FL and firms` performance in corporations listed on the Tehran stock exchange during 2006-2011. The researchers used Short-Term Debt to Total Assets (STD-TA), Long-Term Debt to Total Assets (LTD-TA) and Debt Ratio (DR) as proxies for FL. Whereas, they used ROA, ROE, EPS and market value of equity to the book value of equity as proxies for FP of corporations. It is, therefore, hypothesized that:

H10: There is a significant negative relation between corporate financial leverage and firm`s FP.

Table (2.1): Summary of the hypotheses

Hypotheses	Expected Relationship
Board Interlocking	
There is a significant positive relation between BI and firm's FP	positive
Board Characteristics	
There is a significant positive relation between board size and firm`s FP	positive
There is a significant negative relation between duality of CEO and firm`s FP.	Negative
There is a significant positive relation between women in the board and firm`s FP.	positive
There is a significant positive relation between Number of Board Meetings and firm`s FP.	positive
Ownership structure	
There is a significant negative relation between the large OS and firm`s FP	Negative
There is a significant positive relation between institutional ownership and firm`s FP.	Positive
There is a significant negative relation between foreign ownership and firm`s FP	Negative
There is a significant positive relation between firm size and firm`s FP.	positive
There is a significant negative relation between corporate financial leverage and firm`s FP.	Negative

2.7 The Conceptual Model of the Study

Based on the above presented hypotheses, the researcher developed the conceptual model used to validate the relationships of the variables of interest. The conceptual framework shows the hypotheses supported by the discussed theories and empirical studies pertinent to developing countries to identify the relationships between BI, board characteristics and OS on the FP of corporations listed in PEX.

The conceptual framework (Figure 2.1) shows the effect of BI, board characteristics and OS on the FP that were explored. These variable elements are operationalized as independent and dependent variables. In line with the thesis hypotheses, relationships among the independent and dependent variables are categorized to affect either positively or negatively the FP. The conceptual framework specifies BI, board size, women in the board, number of board meetings, institutional ownership and firm size have a positive effect on FP. On the other hand, each of duality of CEO, large ownership structure, foreign ownership, and corporate financial leverage has negative effects on FP. Eventually, the researcher used financial leverage and firm`s size as control variables.

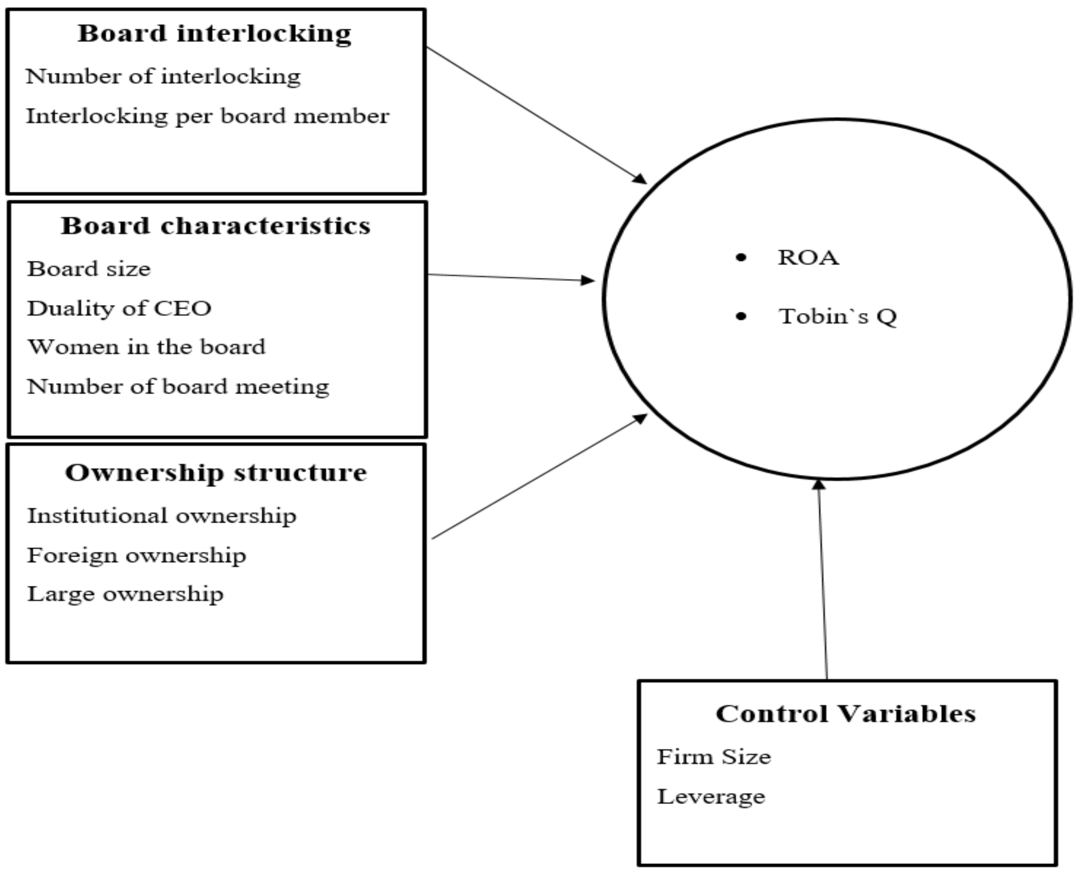

Figure (2.1): Conceptual model on corporate performance.

Chapter Three

Research Methodology and Design

Chapter Three

Research Methodology and Design

3.1 Data of the Study

The researcher obtained the data from annual reports of companies that are listed on the Palestinian Exchange (PEX) for the period from 2011-2018. The number of listed companies at PEX is (48) as of 31/12/2018. The researcher excluded the data of the listed companies in 2019 since when the researcher started to collect these data, the annual reports of these companies had not been published yet.

The companies are categorized into five sectors: banking, insurance, service, investment and manufacturing. There are fourteen financial corporations listed in PEX of which seven are banking institutions whereas the others are insurance institutions. Whereas, there are 34 non-financial corporations listed on the PEX. The researcher uses the annual reports of these corporations in order to get the required information and data. Besides, the researcher obtained the stock market price information from PEX Reports.

The researcher in this thesis included all economic sectors since the board interlocking exists among all the economic sectors whether they are financial or non-financial economic sectors.

The researcher investigates the entire corporations listed on the PEX including financial and non-financial institutions over the study period. The main criteria for the inclusion of the company are to be listed in the market during the period of 2011-2018 and have published annual reports. The remaining sample after excluding unqualified companies is (45) listed companies.

Table (3.1): Distribution of the studied population based on the economic sectors at the end of 2018

Sector	**Number of listed companies**	**Sample**
Banking sector	7	7
Insurance sector	7	7
Industrial sector	13	13
Investment sector	10	9
Service sector	11	9
Total	**48**	**45**

Source: www.pse.com. Investor Newsletter Issue # 401 December 2018

3.2 Measurement of Study Variables

This section presents the various variables of the study and the measures used to operationalize them.

3.2.1 Dependent Variables

The dependent variable is the FP. The theoretical framework assumes that there are several factors and determinants that influence the firm`s FP of Palestinian listed corporations through increasing the efficiency of the BD in performing its control, resource and strategic roles and activities that will in turn improve the FP of the corporation. This improvement in FP can be expressed in accounting and market-based measures of performance (Zayed, 2017).

Several variables can be utilized to measure corporate FP that can be derived from the financial statements such as ROA, ROE, EPS and market data i.e. Tobin’s Q. The research will utilize ROA as an accounting based measure of performance and Tobin`s Q as a market-based measure of performance:

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

$$Tobin`s\ Q = \frac{Market\ Capitalization}{Total\ Assets}$$

In addition, two other proxies are used for robustness namely ROE and EPS defined as net income to total equity and net income to total number of shares, respectively.

3.2.2 Measurement of Independent Variables

BI: Measured by interlocking per board member (IPB) defined as total board members interlocking divided by total board members (Hamdan, 2018; Bezemer, Maassen, Van den Bosch & Volberda, 2007; Santos & da Silveira, 2007; Mendes-da-Silva, 2011;Drago et al,2015). Another measure is the number of interlocking (NOI) defined as total number of interlocking with other companies’ boards (Hamdan, 2018).

Board Size: refers to the number of directors on the board of the corporation listed in PEX (Wen et al., 2002; Lipton & Lorsch, 1992; Arosa et al., 2013; and Yawson, 2006).

CEO duality: refers to the situation when same person occupies the CEO and board chair positions in the company. The researcher will give (zero) if there is a separation between the two positions and assign (1) if the person occupies the two positions that are board chair position and the CEO at the same time (M. C. JENSEN, 1993; Mallette & Fowler, 1992; Dal Vesco & Beuren, 2016).

Women on Boards: number of women in the BD of the corporation divided by total board members (Abdelzaher & Abdelzaher, 2019; Rose, 2007).

Number of Board Meetings: Number of board meetings, held every year (Ntim, 2009; Hassan, 2016; Finkelstein & D'aveni, 1994; Eluyela et al. 2018).

Large Ownership: Large ownership is the percentage of shares owned by largest five shareholders to total outstanding shares (Puspitaningrum & Atmini, 2012; Jensen et al., 1976; Brown, 2011; García-Ramos & García-Olalla, 2011; Vishny, 1986; Sanda et al., 2005).

Institutional Ownership (INSTIT): Institutional ownership is an important attribute to indicate the nature of ownership composition in corporations. It indicates the total portion of equity that is owned by institutional investors (Hassan, 2016; Fama, 1980; Berger & Udell, 2003;Wan, 1999; Shleifer & Vishny, 1986).

Foreign Ownership (FORN): Foreign ownership is the percentage of equity owned by foreign investors (Kumar, 2004; Sarkar & Sarkar, 2000; Mangena & Tauringana, 2007; Hamdan, 2018).

3.2.3 Control Variables

Firm Size (SIZE): Natural logarithm of total assets of the corporation listed in PEX at the end of each of the Fiscal year (Isik et al., 2017; Zeitun & Tian, 2007; Chen, 2011).

Leverage (LEV): The book leverage refers to the book value of total debts of the corporation divided by the total book value of the total assets (Chakraborty, 2018; Fama & French, 2002; Kochhar, 1997; Khan, 2012).

Table (3.2): Variables Measurement

Measurement	Formula	References
Dependant Variable		
ROA	Net income divided by total assets	Shahrier, ho, and gaur (2018) Pombo and gutiérrez (2011) Kim (2005) Eluyela et al. (2018) Aryani, setiawan and rahmawati (2017) Hoque, islam and azam (2013) Rodriguez-rodriguez (2014) Abor (2005) Khan (2012) Nassar (2016) Pouraghajan et al. (2012)
TOBIN`S Q	Market capitalization divided by total assets	Zayed (2017 Santos and da silveira (2007) Yermack (1996) Abdelzaher and abdelzaher (2019) Khan (2012)
Independant Variable		
Interlocking Per Board Member	Total board members interlocking divided by total board members	Hamdan, 2018; Bezemer, Maassen, Van Den Bosch & Yolberda, 2007; Santos & Da Silveira, 2007; Mendes-da-silva, 2011; Drago et al,2015).

Measurement	Formula	References
Number Of Interlocking	Total number of interlocking with other companies' boards	Hamdan, 2018
Board Size	Number of directors on the board of the corporation listed in PEX	(wen et al., 2002; Lipton & Lorsch, 1992; Arosa, Iturralde & Maseda, 2013; And Yawson, 2006)
Measurement	**Formula**	**References**
CEO Duality	Situation when same person occupies the CEO and board chair positions in the company. The researcher will give (zero) if there is a separation between the two positions and assign (1) if the person occupies the two positions that are board chair position and the CEO at the same time	. C. Jensen, 1993; Mallette & Fowler, 1992; Dal vesco & Beuren, 2016).
Women On Boards	Number of women in the BD of the corporation divided by total board members	Abdelzaher and Abdelzaher, 2019; Rose, 2007
Number Of Board Meetings	Number of board meetings, held every year	Ntim, 2009; Hassan, 2016; Finkelstein & D'aveni, 1994; Eluyela et Al. 2018
Large Ownership	Percentage of shares owned by largest five shareholders to total outstanding shares	Puspitaningrum and Atmini, 2012; Jensen et al., 1976; Brown, 2011; García-Ramos and García-Olalla, 2011; Vishny, 1986; Sanda et al., 2005
Institutional Ownership	The total portion of equity that is owned by institutional investors	Hassan, 2016; Fama, 1980; Berger & Udell, 2003; Wan, 1999; Shleifer and Vishny, 1986).
Foreign Ownership	Percentage of equity owned by foreign investors	Kumar, 2004; Sarkar & Sarkar, 2000; Mangena and Tauringana, 2007; Hamdan, 2018
Control Variables		
Firm Size	National logarithm of total assets of the corporation listed in PEX at the end of each of the fiscal year	Isik et al., 2017; Zeitun and Tian, 2007; Chen, 2011
Leverage	The book leverage refers to the book value of total debts of the corporation divided by the total book value of the total assets.	Chakraborty, 2018; Fama and French, 2002; Kochhar, 1997; Khan, 2012

3.3 Empirical Research Models

The association between the FP and the BI, board characteristics and OS will be examined using the following model:

Mathematically, the model is expressed as:

$Y_{it} = \beta 0 + \beta 1Meetings_{it} + \beta 2BODZ_{it} + \beta 3BCEO_{it} + \beta 4WOB_{it} + \beta 5NOI_{it} + \beta 6IPB_{it} + \beta 7FORN_{it} + \beta 8INSTIT_{it} + \beta 9\ Large_{it} + \beta 10\ LEV_{it} + \beta 11\ SIZE_{it} + \varepsilon_{it}$

Model (1): $Y_{it} = \beta 0 + \beta 1Meetings_{it} + \beta 2BODZ_{it} + \beta 3BCEO_{it} + \beta 4WOB_{it} + \beta 5NOI_{it} + \beta 6FORN_{it} + \beta 7INSTIT_{it} + \beta 8LEV_{it} + \beta 9SIZE_{it} + \varepsilon_{it}$.

Model (2): $Y_{it} = \beta 0 + \beta 1Meetings_{it} + \beta 2BODZ_{it} + \beta 3BCEO_{it} + \beta 4WOB_{it} + \beta 5IPB_{it} + \beta 6FORN_{it} + \beta 7INSTIT_{it} + \beta 8LEV_{it} + \beta 9SIZEit + \varepsilon_{it}$.

Model (3): $Y_{it} = \beta 0 + \beta 1Meetings_{it} + \beta 2BODZ_{it} + \beta 3BCEO_{it} + \beta 4WOB_{it} + \beta 5IPBit + \beta 6FORN_{it} + \beta 7Large_{it} + \beta 8LEV_{it} + \beta 9SIZE_{it} + \varepsilon_{it}$

Model (4): $Y_{it} = \beta 0 + \beta 1Meetings_{it} + \beta 2BODZ_{it} + \beta 3BCEO_{it} + \beta 4WOB_{it} + \beta 5NOI_{it} + \beta 6FORN_{it} + \beta 7Large_{it} + \beta 8LEV_{it} + \beta 9SIZE_{it} + \varepsilon_{it}$

Where:

Y_{it} = ROA, Tobin's Q

B_0 = Intercept.

$Meetings_{it}$ = number of meetings held by the BD annually.

$BODZ_{it}$ = number of the directors in the board

BCEO$_{it}$ **=** existence of CEO duality that is the same person occupies the position of the CEO and the chairman of the board.

WOB$_{it}$ **=** number of female directors in the board of the directors of the corporation.

NIL$_{it}$= Number of Interlocking

IPB$_{it}$= interlocking per board member

FORN$_{it}$**=** Percentage of the company shares-value owned by foreign investors.

INSTIT$_{it}$**=** Percentage of the company shares-value owned by institutional investors.

Large$_{it}$**:** Percentage of shares-value held by large investors in the company.

LEV$_{it}$ = Leverage measured by total liabilities over total assets.

SIZE$_{it}$**=** Firm size as measured by the natural logarithm of total assets.

ε_{it}= Error term

3.4 STATISTICAL ANALYSIS METHODS

Before analyzing the collected financial data (models), exploratory data analysis is performed using diverse tests and investigations to confirm that the basic assumptions of models are present and consequently the findings and implications of the study could be generalized. Brooks (2002) argues that the researcher should test diverse assumptions before running the estimation especially: outliers, multicollinearity, heteroscedasticity and autocorrelation.

Chapter Four

Findings and Discussion

Chapter Four

Findings and Discussion

4.1 Introduction

This chapter discusses the main results. First: descriptive statistics for the variables of the study are highlighted and discussed, a Pearson correlation matrix of all variables are used to present the strength and direction of the relationship between the variables of the thesis. The results of the model estimated are presented and discussed. Eventually, the findings of the study are presented and explained.

4.2 Exploratory Data Analysis

After obtaining the data from the annual reports of listed companies in PEX, descriptive analysis of the model's variables is presented through calculating the means, standard deviation. Minimum, maximum using E-views.

4.2.1 Data and Descriptive Statistics

Table (4.1): Variables` Descriptive statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
ROA	0.026	0.021	0.261	-0.622	0.069	360
ROE	0.040	0.055	0.483	-2.324	0.195	360
EPS	0.171	0.085	2.408	-0.379	0.330	353
TQ	0.631	0.468	4.390	0.018	0.654	350
Meetings	5.907	6.000	12.000	1.000	1.586	312
BODZ	8.887	9.000	15.000	5.000	2.149	354
BCEO	0.215	0.000	1.000	0.000	0.411	354
Women	0.055	0.000	0.50	0.000	0.104	354
	Mean	**Median**	**Maximum**	**Minimum**	**Std. Dev.**	**Observations**
NOI	13.443	12.000	52.000	0.000	9.734	359
IPB	1.513	1.300	6.667	0.000	1.078	354
FORN	0.280	0.215	0.924	0.000	0.276	350
INSTIT	0.539	0.572	0.999	0.000	0.302	350
MAGOR	0.577	0.636	1.000	0.000	0.249	336
LEV	0.431	0.393	1.048	0.009	0.265	360
SIZE	7.710	7.644	9.689	6.141	0.724	360

Table (4.1) shows that the mean value of Tobin's Q is (0.631), while the median is (0.468), the maximum value is (4.39) the minimum value is (0.018), the standard deviation is (0.654)

The mean of the number of boards interlocking is (13.442) with a median (12), the maximum amount is (52), the minimum amount is (0), the STD is (9.734). The other BI variable that is number of interlocking per board member, the mean is (1.513), the median is (1.30), the maximum amount is (6.667) with a minimum amount is (0.00), the STD is (1.078).

The mean of the board size is (8.887) for the listed companies in Palestine Financial market, with a maximum number is (15). Whereas, the minimum size is (5) directors and a median size is (9) directors. In a study of Lipton and Lorsch (1992) argued that the ideal size of the BD is between (7-8) directors since increasing the board size is expected to lead to decrease in efficiency of the board and become difficult to set up an agreement about certain topics or decisions that means discourage decision-making. Furthermore, Elsayed (2007) and Zainal Abidin et al. (2009) argue that the ideal size of the BD is (8) directors.

The size of the BD in Palestine is similar to the size of the BD in some developing countries. For instance, the mean value of the board size in Egypt and Malaysian corporations is (8) directors. However, in some countries such as Brazil and Australia the size of the board of corporations is (6.6) directors and (7.40) respectively (Kiel & Nicholson, 2003). On the other hand, In United Kingdom and USA corporations the size of the board is (10.7) and (11.45) directors respectively (Bhagat & Block, 2002).

The mean percentage of CEO duality is (21.5%), in other words, that is (78.5%) of corporations listed at PEX separate the position of the CEO from the position of the chairman of the board to decrease the influence of the duality of CEO/Chairman on the efficiency of the board of directors. Jensen (1993) argues that the existence of duality of CEO and chairman of the BD in hands of one person may lead to greater level of agency problem and decreasing the efficiency of the board as it will decrease the efficiency of monitoring the decisions and practices of the CEO. Likewise, The Organization for Economic Co-operation and Development (OECD) recommends the necessity of the separation between the position of CEO and the chairman of the board of directors. In addition, the same recommendation is suggested by the Cadbury report (1992) that claims that the existence of separation between the CEO and the chairman is an important indicator for the existence of good CG system in corporations and adherence with the best practices of CG recommendations.

The other important variable of the board of directors' characteristics is the existence of females in the board. On average (5.5%) of the directors in companies listed in Palestine Exchange are females with a maximum of (50%) of the directors are women in one corporation whereas the minimum is zero and the median is also zero. The standard deviation is (1.104). This means that the participation of women in the BD is still very low compared to developed countries, which reach to (23%) and in some countries such as Philippines the percentage of women in the board is (30%) (World Bank Group, 2015). Nowadays. There is great debate of whether the existence of women in the board nurtures the efficiency of the board through increasing diversification perspectives and increase the worthiness of the decisions.

The other variable is the number board meetings that has a mean of (5.907) meetings with a maximum number of meetings is (12) meetings and the minimum number is (1) meeting and the STD is (1.586).

The percentage of foreign ownership in listed companies in Palestine is (27.96%), with a median of (21.52%) and the maximum percentage is (92.41%), whereas the minimum percentage is (0.00) with STD is (27.60%). we can say that the foreign investors do not appear in the corporation`s ownership of all Palestinian companies. The main implication of the foreign ownership percentage that this percentage is still low.

The other important measure is the institutional ownership that has a mean of (53.92%), the median is (57.21%) with a maximum percentage is (99.92%) and minimum is (0.00), the STD is (30.2%). The other important measure is the large ownership that has a mean of (57.66%), the median is (57.21%) with a maximum percentage is (100%) and minimum is (0.00), the STD is (24.95%). The percentage of large ownership in Jordan is (63.8%) where as in corporation listed in Saudi the percentage of large ownership is (61.96%) (Al-Bassam et al., 2015). Conversely, the percentage of large ownership in developed countries is less than the case of developing countries. For instance, the percentage of large ownership is UK is (5%), whereas in Polish corporations is (21%) and in Czech firms is (41%) (Lskavyan & Spatareanu, 2008) and this percentage is just (10%) in USA corporations. (Bloom & Van Reenen, 2007). The main justification of this percentage that the listed companies in Palestine are usually owned either by family members or small number of investors who have large percentage of firm`s ownership, which resulted in concentration of ownership.

The mean of the natural logarithm of firm size measured by the total assets is (7.709) with a median (7.644), the maximum amount is (9.689), the minimum amount is (6.141), the STD is (0.724). Corporate financial leverage the mean is (0.431), the median is (0.393), the maximum amount is (1.048) with a minimum amount is (0.009), the STD is (0.265).

4.2.2 Correlation Coefficient Matrix

The researcher used Pearson correlation between the board characteristics, OS, BI and FP to investigate the direction, power and strength of the relationship between each investigated variable with the other variables included of the model. Besides, correlation matrix is important to check if there is any multicollinearity among the investigated variables of the model.

Table (4.2): Pearson Correlation Coefficients for all firm variables

Correlation	ROA	ROE	EPS	TQ	Meetings	BODZ	BCEO	Women	NOI	IPB	FORN	INSTIT	MAGOR	LEV	SIZE
ROA	1.000														
ROE	0.587	1.000													
EPS	0.691	0.405	1.000												
TQ	0.097	-0.001	0.120	1.000											
Meetings	-0.067	0.072	0.059	-0.004	1.000										
BODZ	-0.053	-0.011	-0.113	-0.323	-0.162	1.000									
BCEO	0.079	0.097	-0.056	-0.104	-0.193	0.136	1.000								
Women	0.194	0.121	0.074	0.126	-0.039	-0.253	-0.092	1.000							
NOI	-0.053	-0.082	0.068	0.084	-0.020	0.313	-0.126	-0.217	1.000						
IPB	-0.086	-0.113	0.089	0.208	0.020	0.014	-0.164	-0.181	0.931	1.000					
FORN	0.130	0.038	0.167	0.123	0.017	0.006	-0.188	-0.026	0.210	0.233	1.000				
INSTIT	-0.231	-0.104	-0.184	0.211	0.038	0.168	-0.310	-0.305	0.504	0.504	0.160	1.000			
MAGOR	-0.155	-0.172	-0.120	0.232	-0.125	0.026	-0.288	-0.245	0.279	0.334	0.130	0.749	1.000		
LEV	-0.179	-0.093	-0.119	-0.517	0.081	0.216	-0.002	-0.021	-0.185	-0.238	0.198	-0.102	-0.071	1.000	
SIZE	0.106	0.214	0.127	-0.388	0.161	0.483	0.085	-0.190	0.232	0.101	0.279	0.132	-0.112	0.543	1.000

Table (4.2) shows the Pearson correlation matrix. The matrix shows that there is high correlation coefficient between the number of interlocking and interlocking per board members (0.931). In addition, there is high correlation coefficient between institutional ownership and large ownership (0.749). Thus, the researcher used four different models to treat this issue in the investigated data.

The correlation matrix shows that there is a positive correlation between CEO duality, women in the board of directors, existence of foreign ownership and firm size with ROA. However, there is a negative correlation between board meetings, board size, number of interlocking, interlocking per board members, institutional ownership, large ownership and corporate financial leverage with ROA. Tobin's Q has a positive correlation with women on the board, number of interlocking, interlocking per board member, foreign ownership, institutional ownership and large ownership. On the other hand, there is a negative correlation between Tobin's Q and board meeting board size, CEO duality, corporate financial leverage and firm size.

4.3 Empirical Models Estimation

This section of the analysis is the most important section of the analysis as it draws the relationship between the dependent variables and the independent variables. The researcher used the panel regression analysis to investigate the effect of BI, OS and board characteristics on the FP of the corporation. The researcher used the ROA and Tobin's Q to measure corporate FP.

4.3.1 Panel Data Estimation

This section shows the findings from the ordinary least square regressions (OLS). The following regression models are used to investigate the relationship between FP and the BI, board characteristics and OS.

FP=*f* (BI, board characteristics, OS, control variables).

The researcher used four different models to treat with multicollinearity in the investigated data.

1. The first model excluded interlocking per board member and large ownership.
2. The second model excluded number of interlocking and large ownership.
3. The third model excluded number of interlocking and institutional ownership.
4. The fourth model excluded interlocking per board and institutional ownership.

4.3.1.1 Financial Performance (ROA)

This section of the thesis shows the regression analysis results of FP measured by ROA.

Table (4.3): Regression results for FP (ROA)

Variable	Model 1	Model 2	Model 3	Model 4
Meetings	-0.001	-0.001	-0.002	-0.001
	(-0.264)	(-0.276)	(-0.668)	(-0.532)
BODZ	-0.001	-0.004 **	-0.005 ***	-0.001
	(-0.400)	(-2.018)	(-3.318)	(-0.474)
BCEO	0.012	0.013	0.024 *	0.024 *
	-0.83	-0.833	-1.68	-1.713
Women	0.068 *	0.060 *	0.090 *	0.100 *
	-1.734	-1.707	-1.814	-1.8
NOI	-0.001 *			-0.002 *
	(-1.674)			(-1.840)
IPB		-0.015 *	-0.017 *	
		(-1.714)	(-1.917)	
FORN	0.043	0.045	0.044	0.042
	-1.323	-1.385	-1.319	-1.225
INSTIT	-0.048 ***	-0.044 ***		
	(-3.376)	(-3.553)		
MAGOR			-0.005	-0.01
			(-0.408)	(-0.753)
LEV	-0.153 ***	-0.155 ***	-0.157 ***	-0.155 ***
	(-3.262)	(-3.251)	(-3.372)	(-3.360)
SIZE	0.049 **	0.051 **	0.051 **	0.048 **
	-2.022	-2.066	-2.074	-1.987

Variable	Model 1	Model 2	Model 3	Model 4
R-squared	0.558	0.563	0.569	0.563
Adjusted R-squared	0.54	0.545	0.551	0.545
F-statistic	31.292	31.891	31.168	30.419
Prob(F-statistic)	0	0	0	0
Durbin-Watson stat	2.374	2.374	2.401	2.403
Notes: Panel OLS with White cross-section standard errors & covariance (d.f. corrected) are used. The model includes a constant and an AR (1) terms. ***, **, * indicate significance at 1%, 5%, and 10% respectively. Numbers in parenthesis are t-statistics.				

Table (4.3) shows the results for the effect of BI, board characteristics, OS and control variables on the FP measured by ROA. The results are jointly significant at 1%, 5% and 10% of significance. The models of the study show that R^2 are (0.558), (0.563), (0.569), (0.563) respectively. The Table presents that the board meeting has negative and insignificant effect on the FP measured by ROA. The findings of the study confirm that there is a negative relationship between board size and ROA. This relationship is insignificant in model 1 and model 4 but significant in model 2 and model 3.

There is a positive effect of CEO duality and ROA and this effect is insignificant of the model (1) and model (2) but significant at 10% in both model (3) and model (4). There is a positive effect of women on the board on ROA and this effect is significant at 10% for all the models.

Number of interlocking, there is a negative and significant effect on ROA at 10% in model (1) and model (4). From another perspective, there is a negative and significant effect at 10% for the interlocking per board member on ROA in models (2) and (3). On the other hand, there is a positive and insignificant effect of foreign ownership on the ROA.

Institutional ownership, there is a negative and significant effect at 1% for on the ROA in model (1) and insignificant in model (2). There is a negative and insignificant effect of large ownership on the ROA in model (3) and model (4). There is a negative and significant effect at 1% for leverage on ROA and eventually there is a positive and significant effect at level 5% for firm size on the ROA.

4.3.1.2 Value of the company (Tobin’s Q)

This section of the thesis presents the regression analysis results of FP measured by Tobin`s Q.

Table (4.4): Regression results for Value of the company (Tobin`s Q)

Variable	Model 1	Model 2	Model 3	Model 4
Meetings	0.001	0.001	0.001	0.001
	(-0.264)	-0.11	-0.09	-0.095
BODZ	-0.012 *	-0.008	-0.007	-0.011
	(-1.659)	(-0.927)	(-0.994)	(-1.623)
BCEO	-0.027	-0.028	-0.002	0
	(-1.006)	(-1.049)	(-0.064)	(-0.002)
Women	-0.656 *	-0.632 *	-0.785 *	-0.806 *
	(-1.720)	(-1.694)	(-1.915)	(-1.931)
NOI	0.001			0.001
	-1.143			-0.917
IPB		0.015 *	0.014 *	
		-1.735	-1.82	
FORN	0.15	0.147	0.147	0.15
	-0.85	-0.861	-0.91	-0.901
INSTIT	0.186 **	0.180 *		
	-2.049	-1.916		
MAGOR			0.334 ***	0.333 ***
			-3.616	-3.681
Variable	**Model 1**	**Model 2**	**Model 3**	**Model 4**
LEV	-0.325	-0.326	-0.328	-0.326
	(-0.994)	(-0.996)	(-1.085)	(-1.082)
SIZE	-0.777 ***	-0.769	-0.868 ***	-0.878 ***
	(-3.471)	(-3.537)	(-3.503)	(-3.446)
R-squared	0.94	0.94	0.942	0.942
Adjusted R-squared	0.938	0.938	0.939	0.939
F-statistic	388.177	389.098	381.252	380.455
Prob(F-statistic)	0	0	0	0
Durbin-Watson stat	2.173	2.18	2.112	2.105

Notes:
Panel OLS with White cross-section standard errors & covariance (d.f. corrected) are used.
The model includes a constant and an AR (1) terms.
***, **, * indicate significance at 1%, 5%, and 10% respectively.
Numbers in parenthesis are t-statistics.

Table (4.4) shows the entire results for the impact of BI, board characteristics, OS and control variables on the FP measured by Tobin`s Q. The results are jointly significant at 1%, 5% and 10% of significance. The models of the study show that $R^2$are (0.94), (0.94), (0.942), (0.942) respectively.

The Table presents that the board meeting has a positive and insignificant effect on FP measured by Tobin`s Q under the four models tested. There is a negative and significant effect of board size on FP measured by Tobin`s Q at 10% under model (1) and a negative insignificant under the remaining models.

There is a negative and insignificant effect of CEO duality on Tobin`s Q under the models (1,2,3) but there is no relationship under model (4). There is a negative and significant effect at 10% for women in the board on Tobin`s Q in all the models.

Number of interlocking there is a positive and insignificant effect of number of interlocking on Tobin`s Q under all models tested.

From another perspective, there is a positive and significant effect of the interlocking per board member on the Tobin`s Q at 10%. On the other hand, there is a positive and insignificant effect of foreign ownership on the Tobin`s Q. Institutional ownership has a positive and significant effect at 5% on Tobin`s Q in model (1) and it has a positive and significant effect at 10% on Tobin`s Q in model (2). There is a positive and significant effect of large ownership on the Tobin's Q in model (3) and model (4) at 1%. There is a negative and insignificant effect of leverage on Tobin`s Q and eventually there is a negative and significant effect at level 1% of firm size on the Tobin`s Q.

4.3.2 Diagnostic Checks

The researcher at first checked the effect of multicollinearity that means two or more variables have a high or perfect correlation between them (Hair et al., 1998). Researchers usually use Pearson correlation to check the presence of multicollinearity between the variables of the model.

Multicollinearity occurs as a result of the relationship between one or more of the independent investigated variables with other independent variables.

The researcher uses Durban Watson statistic in order to validate if the investigated variables are seriously correlated. Velnampy (2011) the Durban Watson ought to be between 1.5-2.5 to ensure that there is no autocorrelation among the investigated variables in the specified models due to the value of the DW (0.821, 0.823, 0.799, and 0.789) in four ROA models respectively, also as (0.150, 0.147, 0.148, 0.149) of the TQ models respectively. Thus, the researcher uses the autoregressive term of order one AR (1) in order to remove the autocorrelation.

4.4 Discussion of Results

The researcher in the following section of the thesis discussed the findings and results of the study with the findings of the previous empirical studies and researches.

Table (4.5): Summary of the results for ROA and TQ models

	ROA		TQ	
Variable	**Significant**	**Sum of Squares**	**Significant**	**Sum of Squares**
Meetings	Negative	-	Positive	-
BODZ	Negative	significant with models 2,3	Negative	significant with model 1
BCEO	Positive	significant with models 3,4	Negative	-
Women	Positive	Significant	Negative	Significant
NOI	Negative	significant	Positive	-
IPB	Negative	significant	Positive	significant
FORN	Positive	-	Positive	-
INSTIT	Negative	significant	Positive	significant
MAGOR	Negative	-	Positive	significant
LEV	Negative	Significant	Negative	-
SIZE	Positive	Significant	Negative	significant

As we notice that there are several differences between the results of the ROA and Tobin’s` Q since the differences and the components of each measurement of them as Tobin`s Q interest in the market values and measures. We can say that the ROA is based on accounting information from the annual reports of the listed companies

4.4.1 Board Interlocking (BI)

The first hypothesis assumes that “**There is a significant positive relation between BI and firm`s performance**”.

The regression analysis confirm there is a **negative**effect of BI measured by number of interlocking and interlocking per board member at 10% level of significance on corporate FP measured by ROA. The main justification of this result is that BI may lead to create conflict of interest. An extremely centralized and compressed network of directors can generate a social system in which the directors are faithful to each other and just act on interest. Several scholars and researchers claim that there is a negative relationship between BI and FP. Santos and da Silveira (2007) finds that there is a negative relationship between BI and the firm`s value measured by Tobin's Q in Brazilian companies. Drago et al (2015) demonstrate that there is a negative relationship between interlocking and FP in Italian companies. Fligstein and Brantley (1992) interlocks decrease FP as it imposes higher costs on firms as the interlocking directors do not have adequate time to attend all board of directors’ meetings and discussions. Besides, other researchers argue that external directors with several directorships are attributed with weak CG (Fich & Shivdasani (2006). Thus, busy directors may affect negatively the firm`s performance as measured by ROA and Tobin`s Q.

Conversely, there is a **positive** effect ofboard interloking measured by number of interlocking and interlocking per board member on corporate FP measured by Tobin's Q as a proxy of firm value. Allen (1974) states there is a positive effect of BI on corporate FP as corporate director interlocking is perceived as an important cooperative strategy between corporations for decreasing sources of uncertainty in their environments. Corporate interlocking is a tool or instrument of anticipating or controlling sources of uncertainty stemming from potentially disruptive unilateral actions of other corporations. Likewise, this result is in consistent with Bezemer, Maassen, Van den Bosch and Volberda (2007) who argue that BI is important for corporations as it can provide advantages to corporations connected in a network and consequently increase the FP of corporations. Mendes-da-Silva, Rossoni, Martin and Martelanc (2008), and Mendes-da-Silva (2011) reveal that there is a positive correlation between BI and the firm FP measured by Tobin`s Q.

Mendes-da-Silva (2011) find that there is a significant positive correlation between the BI and corporate FP. Likewise, Kaczmarek, Kimino and Pye (2014) investigate the impact of board of directors` interlocking and FP of the financial and utility corporations listed in UK over a period of ten years. The study results demonstrate that there is a positive correlation between the two variables. Interlocking is an important mechanism of corporate control; interconnection and resource dependence (Mizruchi, 1982). Furthermore, Schoorman Bazerman and Atkin (1981) assume that interlocking directors is vital tool for providing horizontal coordination between the different competitors, vertical coordination between suppliers and customers, expertise, and improvement of brand name and recognition of the business. Lang and Lockhart (1990) reveal that board interlocked with financial firms increases with financial dependence. This result is inconsistent with resource dependency theory that argues interlocking directorship is important in order to work as carrier of information (Useem, 1984). Furthermore, directors who work in the other firm`s boards are expected to have better access to different policies, strategies and insider information that is else not accessible to external investors and stakeholders. As well, they are expected to offer better direction and advice.

4.4.2 Board Size

The second hypothesis assume that "**There is a significant positive relation between board size and firm`s financial performance".**

The table (4.5) presents that there is a negative and significant effect of board size on the corporate FP measured by either ROA and firm value measured by Tobin`s Q. This means an increase in the size of the BD will lead to decrease in FP of listed companies in Palestine. This un-supports the second hypothesis that states there is positive and significant effect of board size on the FP of listed companies in Palestine. There is no optimum size of the board documented in any universal standards. Palestinian Code of CG states that the members of the BD of the listed corporations must not be less than five and not exceeds eleven directors. This result is in contrast with Abdelzaher and Abdelzaher (2019) who found that there is a positive correlation between the board size and FP of corporations listed in Egyptian non-financial corporations listed in Cairo Stock Exchange.

The main justification of this result that increasing board size may lead to an increase in challenges of coordination and communication, decreasing board of directors` efficiency in controlling and monitoring agents (Eisenberg et al., 1998). Furthermore, increasing board of director's decreases the potential and aptitude of directors to disapprove and criticize senior executive management and to analyze corporate FP efficiently (Lipton & Lorsch, 1992). Besides, this study is in consistent with M. C. Jensen (1993) who found that increasing the size of the board is more expected to confront high costs to control and oversight the corporation and they are less expected to have efficient function when the board size is larger than (7-8) directors. Likewise, Anderson (2003) who support small board size to respond and react positively to the declaration of a board downsizing. Besides, this result is in an agreement with Yermack (1996) who reveal that there is a negative relationship between the board size and firm FP measured by Tobin ‘s Q for (452) large scale US corporations in the period 1984 to 1991 as he found that a small board has more favorable values for financial ratio. Likewise, Yermack (1996) argue that the incremental cost will rise as long the number of board members’ increases, and the corporation will achieve greater market value if the number of the board is smaller.

Blue Ribbon Committee (1995) emphasizes that the BD should be small enough to have detailed debate. In addition, this result is in an agreement with Vu and Nguyen (2017) who demonstrate that there is a negative association between board of director’s size and corporate performance in listed Singaporean companies.

This result is in contrast with the stewardship and resource dependency theories that assume that there is a positive correlation between size of the

BD and corporate FP. As they assume that increasing the board size will help the company to diversify its competencies, skills and knowledge and increasing the efficient participation and experience sharing among the members of the board. Thus, enhancing the quality of decision-making process in corporations and this will lead inevitably to improve the FP of the corporation (Setia-Atmaja et al., 2009). However, when the board includes directors who have no adequate skills, experience and education and good experience in the market this will surely decrease the FP of the corporation and increases the costs incurred by the corporation.

The negative effect of board size on the FP of listed companies in Palestine may be attributed that family ownership and family directors dominate most of the Palestinian corporations. Thus, the appointment of directors in the board is based in favoritism and nepotism rather than based on qualifications, experience and educational achievement. So that, may decrease the efficiency of the board and gives some directors the opportunistic to influence the senior executive management efficiency and decision making and to work for their best personal interesting rather than working for the best interest of the corporation and especially manipulating the interest of minor shareholders. Besides, those directors usually do not have the sufficient experience, knowledge and awareness to run the business efficiently and enhance the efficiency of controlling, monitoring and oversight over the executive management. Hu et al (2010) support this justification.

4.4.3 CEO Duality

The third hypothesis assumes that "**There is a negative and significant effect of CEO Duality and firm`s financial performance".**

The previous regression analysis shows that there is a contrasting result in the analysis of the regression for the effect of the CEO duality on the corporate FP as there is a positive correlation between CEO duality and corporate FP measured by ROA. Whereas, there is a negative effect of CEO on FP measured by Tobin's Q.

The positive effect of CEO duality on FP measured by ROA. This result is in contrast with the AT that assumes the separation of CEO and Chairman Positions acts an important role in improving the FP of the corporation as it increases the monitoring, controlling and over sighting efficiency over the senior management and protecting small investors from the manipulation of large dominated investors in listed corporations. However, this result supports the STT that argues that separation of duties between the CEO and the chairman positions decreases corporate FP. Because this theory assumed that efficient management is based on "The principle of the unity of command as when responsibilities and decisions are set in hand of one person". So this might ease better recognition of the business activities and rationale better decisions that will decrease the agency costs and it will so that increases the FP of the corporation." (Mallette & Fowler, 1992). Furthermore, this result is in an agreement with Dal Vesco and Beuren (2016) who found that there is a positive effect of the CEO duality on the

FP of Brazilian corporations measured by ROA and ROE. The CG recommendations in Palestine suggest that there must be separation between the CEO and the chairman in order to enhance the efficiency and quality of monitoring and controlling practices in Palestinian corporations and protecting the interests of small investors in these corporations.

This result is consistent with Donaldson and Davis (1991) who reveal that there is positive effect of CEO duality on corporate FP as the duality of the CEO has more potential to progress that decision-making process. Besides, it is expected to overcome organizational inertia, and senior executive management has significant extent of freedom in order to work on their vision. Likewise, Braun and Sharma (2007) demonstrate that CEO duality is important in order to develop and enhance strategic decisions given the discretion of the CEO. Furthermore, the same person may have a great level of experience, skills and good reputation that the existence of duality may improve the FP and efficiency of decision making in the business (Hillman & Dalziel, 2003). Thus, the resource dependency theory perceive that the CEO and chairman duality is very important to enhance the quality of decision making and enhancing the FP of the business. However, the institutional ownership supports the idea of separation of authorities between the executive authority and the monitoring and controlling authority embedded in the board of directors' effectiveness to control and oversight the practices and actions of the corporation. Nowadays, most

Palestinian corporations separates between the CEO position and the chairman position in compliance with the code of corporate governance.

According to the negative effect of CEO duality on FP measured by Tobin`s Q as a proxy of firm value. This indicates the separation of the CEO position and the chairman position will increase the FP of the corporation. Thus, based on this analysis the corporations must separate between these two positions to increase firm value. The main justification of this result that the separation of these positions increases the efficiency of the controlling, monitoring and overseeing of the board over the senior executive management and ensuring that the senior executive management work for the best interest of investors and shareholders. Besides, they assume that the combination of these two positions will give more opportunity for manipulation the interest of the small investors. This argument is in contrast with the views of the STT that assumes CEOs are honest and trustworthy and work in the best interests of all investors and shareholders (Davis et al., 1997). Thus, the combination of the CEO and chairman in hand of one-person will increase the efficiency and lead to better returns to investors and shareholders than separation of the two positions (Donaldson & Davis, 1991).

4.4.4 Women in the Board

The fourth hypothesis assumes that "**There is a significant positive relation between women in the board and firm`s financial performance".**

The results of the multivariate regression analysis confirms that there is a positive effect of women on the board on FP measured by ROA. Conversely, there is a negative effect of women on the board on the firm value measured by Tobin`s Q.

First, there is a positive effect of women on the board on FP measured by ROA. This means that the increase in number of women in the board will lead to increase in FP this result is in consistent with Abdelzaher and Abdelzaher (2019) who reveal that there is a positive significant relationship between percentage of women on board members and corporate value measured by return on equity in non-financial corporations in Egypt. Furthermore, this result is in consistent with Adams and Ferreira (2009), Amore et al (2014) and Menozzi et al. (2015) who reveal that the existence of female in the BD increases the efficiency of the monitoring, controlling, and decreasing agency problems in the listed corporations. Furthermore, this result is in consistent with Cromie and O'Sullivan (1999) who reveal that family females prefer to develop their career in family firms rather than outside.

Second, there is a negative effect of women on the board on firm value measured by Tobin`s Q. This result is in consistent with Carter et al., 2010;

Chapple and Humphrey, 2014). Who found that there is a negative effect of women in the board on FP measured by Tobin`s Q since they argue that women are selected in the board of director based on nepotism, friendliness relations rather than based on their qualifications and experiences.

In Palestinian environment women may be elected in the board often do not have a deep knowledge, awareness and experience in business field and so are expected to follow male members on the board. Furthermore, the representation of women in the Palestinian BD is still very low and very limited. Thus, the existence of one or two women in the board may not affect the corporate FP as their ideas and views will be ignored by men who control the decisions in the board. Furthermore, this result is in consistent with Shehata et al. (2017) who reveal that there is a negative effect of gender diversity on corporate FP and that women in the board should be carefully observed and elected based on their qualifications, experience and skills in order to keep away from the negative effect of FP.

4.4.5 Number of Meetings

The fifth hypothesis assumes that "**There is a significant positive relationship between Number of Board Meetings and firm`s financial performance".**

The study results confirm that there is a negative insignificant effect of number of meetings on the FP by ROA. This causes in consistent with Rodriguez-Fernandez, Fernandez-Alonso and Rodriguez-Rodriguez (2014) who reveal that there is a negative effect of the number of boards on the FP of listed Spanish corporations. Whereas, there is an insignificant and positive impact of number of meetings on the firm value measured by Tobin`s Q. This result is in consistent with the AT that assumes increasing the number of board meetings would increase the efficiency of monitoring and controlling over the senior executive management. Likewise, this result is in consistent with Finkelstein and D'aveni (1994) who argue in light of the AT perspective that the BD has an essential role in monitoring, running board meetings. Confirming that all the matters that relevant to the business are listed in the agenda to be discussed in the board meeting, hiring and firing, and replacing the CEO if the latter is deemed to be negligent in serving the interests of the shareholders. Besides, it is in an agreement with Eluyela et al. (2018) who found that there is a positive significant relationship between board meeting frequency and corporate performance in deposit money banks in Nigeria. Besides, this result is in consistent with Al-Daoud, Saidin and Abidin (2016) who reveal that there is a positive significant relationship between the board meetings frequency and FP of industry and service sectors corporations listed on the Amman Stock Exchange. Furthermore, this result is in agreement with Hoque, Islam and Azam (2013) and Al-Manaseer, Al-Hindawi, Al-Dahiyat and Sartawi (2012) who reveal that there is a positive effect of audit committee meetings frequency and remuneration committee meetings on FP.

4.4.6 Large Ownership

The sixth hypothesis assumes that "**There is a significant negative relation between the large OS and firm`s financial performance".**

The findings of the multivariate regression analysis reveal that there is a negative effect of large ownership on corporate FP measured by ROA. This result is in consistent with Omrana et al. (2008), Shan, and McIver (2011). Furthermore, Millet-Reyes and Zhao (2010) reveal that large ownership has a negative and a significant effect on corporate FP by ROA. Likewise, Cronqvist and Nilsson (2003) reveal that large ownership affects negatively on corporate FP measured by ROA.

There is a positive effect of large ownership on corporate FP measured by Tobin`s Q, as the existence of large ownership motivates the investors and shareholders who have large stake in the corporation to monitor and control the activities of the senior executive management. In addition, that ensure adequate disclosure about the activities, FP, position and the future strategic plans of the corporation. Whereas, the dispersion of ownership will decrease the incentive to monitor and control the senior executive management thus leading to poor performance and manipulation of small investors and shareholders. For instance, Miller and Le-Breton Miller (2006) based on the agency cost theory the decrease of agency costs because of large ownership will increase the corporate FP that is efficient utilization of the existing resources thus maximization the wealth of owners.

4.4.7 Institutional Ownership

The Seventh hypothesis assumes that "**There is a significant positive relationship between institutional ownership and firm`s financial performance".**

The findings of the multivariate regression analysis reveal that there is negative effect of institutional ownership on corporate FP measured by ROA. This means when the institutional ownership goes up, the corporate FP of the company will decrease. Hart (1995) argues that there are two problems of institutional investors as those investors hold large stake of ownership in one corporation as ownership of large stake will decrease the potential to invest outside the corporation this indicates that corporations` ownership will decrease the potential to diversify the investment opportunities among various investment opportunities. Besides, corporations ` may improve the agency problem but they cannot eliminate it. Besides, this result is in consistent with Laeven and Levine (2007) who reveal that "More than 40% of corporations in Western countries are considered by the presence of family investors and other large non-family shareholder (such as institutional investors) owning at least 10% of the company's shares. Furthermore, in several cases domestic institutional investors may offer diverse objectives and wants compared to family shareholders that may support or decrease the family businesses` performance.

Conversely, there is a positive effect of institutional ownership on Tobin`s Q this indicates that an increase in institutional ownership will result the increase in corporate FP measured by Tobin`s Q. Hassan (2016) a large portion of institutional investors and ownership concentration characterizes OS in Palestinian listed firms. Besides, they confirm that institutional investors hold 52% of Palestinian corporation.

This result is in consistent with Fama (1980) who reveals that institutional ownership affects positively firm`s FP and maximization of the owners and shareholders` wealth. Likewise, Berger and Udell (2003) reveal that there is a positive significant relationship between institutional ownership and FP of the corporation. Similarly, Wan (1999) reveals that there is a positive direct significant correlation between institutional investors and firm`s FP. The main justification of this results that institutional investors are specialized money managers who have rationale control and monitoring over corporation's resources and assets that are mutual funds, insurance institutions, bank trusts and pension funds. Thus, those investors are efficient investors and they have the opportunity to give the corporation the opportunity to make better investment decision to manipulate investment opportunities and to increase the efficiency of corporation`s controlling and monitoring. Furthermore, institutional ownership gives the corporation more potential to accomplish such advantages in the interest of the firm`s value. It is argued that firms 'ownership act an essential role in enhancing the control and monitoring over the firm`s executive management based on the percentage that they hold in the corporation.

Furthermore, this result is in consistent with Cremers and Nair (2005) who reveal that there is a positive effect of institutional ownership on corporate FP as those investors have large holding stake in the corporation inspire them to be more effective in inducing the management strategies and policies to develop the performance of the corporation. Likewise, Davis and Steil (2001) state that corporation’s ownership that has characteristics for instance: risk diversifications; favoritism of liquidity; and the capability to control large size of businesses because of their large ownership of shares. This result is in consistent with the AT that assumed that there is a positive effect of institutional ownership on corporate FP.

4.4.8 Foreign Ownership

The Eighth hypothesis assumes that “**There is a significant negative relation between foreign ownership and firm`s financial performance”.**

The multivariate regression analysis reveals that there is an insignificant positive effect of foreign ownership on firm`s performance. This result indicates that increasing foreign ownership will lead to increase in corporate FP measured by ROA and Tobin`s Q. This result is in consistent with Kumar (2004) who demonstrates that foreign owners have more experience, competencies and aptitude than local investors do. Furthermore, those investors perform a detailed analysis before taking the investment decision in the country and they search for efficient investment opportunities. They are anticipated to bring in the recent technologies that give the opportunity for corporations to achieve better levels of performance. Likewise, this result is in consistent with Sarkar and Sarkar (2000), (Sarac, 2002), Mangena and Tauringana (2007) who demonstrate that there is a positive association between foreign investment in Zimbabwe and firm`s FP. Furthermore, this result is in consistent with Phung and Mishra (2016) who reveal that there is a positive correlation between firm FP and foreign ownership as they claim that foreign investors are better monitored and have access to financial resources and professional talent.

4.4.9 Firm Size

The Ninth hypothesis assumes that "**There is a significant positive relation between firm size and firm`s FP.".**

The findings of the study confirm that there is a positive effect offirm`s size on corporate FP measured by ROA. This means the increase in corporatesize espcially the increse in total assets will lead to increase in the corporate FP measured by ROA. This may take place if the company uses its all avaiable resources effeciently.

The main justification of the positive effect of the firm size on the FP that large companies have more potenial to benefit from the economies of scale and decreasing the fixed cost per unit and taking advantage from economies of scope. Besides, this result is in consistent with Serrasqueiro and Nunes (2008) who demonstrate that large-scale businesses have more potential to increase their funds and create more diversified strategies.

Furthermore, they have a different set of experienced management employees. Besides, Argawal and Knoeber (1996) consider large-scale businesses enjoy a better position of security and inspections, making it hard to extract any kind of private benefits.

Large-scale businesses have more power and presence in the market that improves and increases their FP this result is in consistent with Haniffa and Hudaib (2006) and Akbas and Karaduman (2012) who found that there is a positive effect of firm size on their FP. Isik, Unal and Unal (2017) demonstrate that there is a positive effect of firm size on FP in manufacturing companies in Turkey.

Zeitun and Tian (2007) reveal that there is a positive correlation between firm size and corporate FP in corporations listed in Jordan Stock Exchange. The study results assume that large-scale business has more ability to generate profits more than SMEs due to diversification and economies of scale. Shen (2012) reveals that there is a positive correlation between firm size and FP in European countries. Likewise, Abor (2005) in his study in Ghana reveals that there is a positive significant relationship between firm size and firm performance. Likewise, Pouraghajan et al., (2012) demonstrate that there is a positive relationship between firm size and FP in listed companies in Iran.

Abeywardhana and Krishanthi (2016) reveal that there is a positive effect of firm's size on FP in the manufacturing sector SMEs in UK. However, there is a negative effect of firm size on the corporate FP measured by

Tobin`s Q. This result is in consistent with Ouimet and Zarutkskie (2014) who find that smaller businesses have higher growth opportunities than large-scale businesses. Shen (2012) reveals that there is a negative effect of firm size on FP, as small firms tend to achieve better FP in case of UK.

4.4.10 Corporate Financial Leverage

The Tenth hypothesis assumes that "**There is a significant negative relation between corporate financial leverage and firm`s FP.".**

The study results confirm that there is a negative effect ofcorporate financial leverage on corporate FP measured by ROA and Tobin`s Q. this means that increasing the amount of financial leverage will lead to decrease in the corporate FP of the listed companies in Palestine. Myers (1977) the existence of high levels of leverage may undesirably influence the firm`s FP in accordance with the problem of lack of investment. This is because the increase in FL affects adversely the ability of the business to increase new debt issuance. This finding is in consistent with Tong and Ning (2004) who reveal that firms that have high amounts of financial leverage demonstrates a negative sign that the business does not have the aptitude to confront future financial risks. Likewise, Andrade and Kaplan (1998) reveal that there is a negative effect of leverage on corporate FP. Thus, business that have higher leverage tend to underperform businesses with lower corporate leverage.

This result is in an agreement with Fama and French (2002) who use the theoretical results of pecking order theory and trade-off theory. They reveal that there is a negative significant relationship between leverage and FP of the corporation. Likewise, Kochhar (1997) reveals that there is a negative relationship between financial leverage and firm`s FP. Likewise, Khan (2012) reveals that there is a negative relationship between leverage and FP through using ROA, Gross Profit Margin (GM) and Tobin’s Q as a proxy of corporate FP in companies listed in Pakistan. Likewise, Bambang, Elen and Andi (2012) reveal that there is a negative correlation between corporate financial leverage and corporate FP in companies listed in Indonesia.

Furthermore, this study result is in agreement with Ebaid (2009) who reveals that there is a negative relationship between financial leverage in non-financial listed corporations in Egypt. Likewise, Domenichelli (2012) demonstrates that there is a negative and significant correlation between debt to assets as a measurement of financial leverage and corporate FP measured by ROE Italian businesses in the region of March. This result is in consistent with pecking order theory. Furthermore, Iavorskyi (2013) reveals that there is a negative correlation between financial leverage and corporate FP in non-financial firms listed on Ukraine.

TABLE (4.6): Overall results showing the influence of BI, board characteristics and OS variables on the performance of listed companies in Palestine Financial Market.

Table (4.6): Summary of the Hypothesis and Results

	Hypothesis	ROA	Tobin`s Q
H1	There is a significant positive relation between Number of Board Meetings and firm`s profitability (FP)	Unsupported	Supported
H2	There is a significant positive relation between board size and FP	Unsupported	Unsupported
H3	There is a significant negative relation between duality of CEO and FP	Unsupported	Supported with models (1, 2,3)
H4	There is a significant positive relation between women in the board and FP.	supported	Unsupported
H5	There is a significant positive relation between BI (number of interlocking) and FP	Unsupported	Supported
H6	There is a significant positive relation between BI (interlocking per board member) and FP.	Unsupported	Supported
H7	There is a significant negative relation between foreign ownership and firm`s profitability.	Unsupported	Unsupported
H8	There is a significant positive relation between institutional ownership and FP	Unsupported	Supported
H9	There is a significant negative relation between the large OS and FP	Supported	Unsupported
H10	There is a significant negative relation between corporate financial leverage and FP	Supported	Supported
H11	There is a significant positive relation between firm size and FP	Supported	Unsupported

4.5 Robustness Test

Robustness test is “A well-known exercise in empirical research, where the researcher investigates how specific “core” regression coefficient estimates behave when the regression modifications is modified by adding or removing regressors. If the coefficients are plausible and robust, this is commonly interpreted as evidence of structural validity" (Lu & White, 2014, P. 194).

4.5.1 Financial Performance (ROE)

Table 0(4.7): Regression results for Financial Performance (ROE)

Variable	Model 1	Model	Model 3	Model 4
Meetings	-0.005	-0.005	-0.012 **	-0.011 **
	(-0.264)	(-1.130)	(-2.217)	(-2.077)
BODZ	-0.006	-0.010	-0.014 **	-0.007
	(-0.759)	(-1.699)	(-2.139)	(-0.750)
BCEO	-0.012	-0.01	0.006	0.006
	(-0.433)	(-0.384)	-0.244	-0.22
Women	0.126 *	0.117	0.178 **	0.196 **
	-1.394	-1.371	-1.993	-2.049
NOI	-0.002			-0.003
	(-0.799)			(-0.931)
IPB		-0.028	-0.037	
		(-1.225)	(-1.305)	
FORN	0.034	0.042	0.046	0.037
	-0.547	-0.691	-0.805	-0.634
INSTIT	-0.127 ***	-0.107		
	(-3.525)	(-2.838)		
MAGOR			-0.035	-0.053
			(-0.532)	(-0.841)
LEV	-0.240 *	-0.255	-0.261 **	-0.244 **
	(-1.953)	(-1.985)	(-2.155)	(-2.121)
SIZE	0.131 ***	0.135	0.139 ***	0.131 ***
	-2.825	-2.823	-2.952	-2.927
R-squared	0.331	0.335	0.337	0.331
Adjusted R-squared	0.304	0.308	0.309	0.302
F-statistic	12.262	12.502	12.005	11.654
Prob(F-statistic)	0	0	0	0
Durbin-Watson stat	2.442	2.431	2.423	2.431

Notes:
Panel OLS with White cross-section standard errors & covariance (d.f. corrected) are used
The model includes a constant and an AR (1) terms
***, **, * indicate significance at 1%, 5%, and 10% respectively.
Numbers in parenthesis are t-statistics.

Table (4.7) shows the entire outcomes of the effect of BI, board characteristics, OS and control variables on the FP measured by ROE. The results are jointly significant at 1%, 5% and 10% of significance. The models of the study show that R2 are (0.331), (0.335), (0.337), (0.331) respectively.

The table presents that the board meeting has a negative effect on FP measured by ROE and this effect is an insignificant in model (1) and model (2). Conversely, it is significant at 5% in model (3) and model (4). There is a negative effect of board size on FP measured by ROE and it`s insignificant of the models (1,2,4) but its significant at 5% of the model (3). There is an insignificant negative effect of CEO duality on ROE under model (1) and model (2). On the other hand, there is an insignificant positive effect of CEO duality on ROE under model (3) and model (4).

There is a positive effect of women on the board on ROE it is significant at 5% in model (3), model (4), and insignificant in model (2). There is a negative but insignificant effect of number of interlocking on ROE. From another perspective, there is an insignificant negative effect of the interlocking per board member on the ROE.

On the other hand, there is an insignificant positive effect of foreign ownership on the ROE. The institutional ownership has a negative and significant effect on ROE at 1% in model (1), but insignificant in model (2). There is an insignificant negative effect of large ownership on the ROE in model (3) and model (4). There is a significant and negative effect of leverage on ROE at 10% on model (1) and significant at 5% in models (1,3,4). Eventually, there is a significant positive effect at 1% for firm size on the ROE.

4.5.2 Financial Performance (EPS)

Table (4.8): Regression Results for Financial Performance (EPS)

Variable	Model 1	Model 2	Model 3	Model 4
Meetings	0.006	0.006	0.005	0.004
	(-0.264)	-1.246	-0.643	-0.622
BODZ	-0.005	-0.006 **	-0.008	-0.006
	(-0.500)	(-0.668)	(-1.090)	(-0.804)
BCEO	0.056	0.056	0.089 ***	0.089 ***
	-1.568	-1.562	-5.247	-5.369
Women	-0.097 *	-0.108	-0.084	-0.072
	(-0.425)	(-0.478)	(-0.495)	(-0.409)
NOI	0			0
	(-0.406)			(-0.685)
IPB		-0.005	-0.008	
		(-0.859)	(-1.167)	
FORN	0.103	0.106	0.08	0.077
	-0.774	-0.769	-0.651	-0.646
INSTIT	-0.390 ***	-0.388 ***		
	(-5.233)	(-5.236)		
MAGOR			-0.139	-0.139
			(-1.479)	(-1.483)
LEV	-0.320 *	-0.319 *	-0.319 *	-0.32
	(-1.944)	(-1.932)	(-1.935)	(-1.946)
SIZE	0.633 ***	0.627 ***	0.549 ***	0.555 ***
	-4.411	-4.274	-3.501	-3.611
R-squared	0.824	0.824	0.831	0.83
Adjusted R-squared	0.816	0.817	0.823	0.823
F-statistic	115.744	115.801	115.644	115.531
Prob(F-statistic)	0	0	0	0
Durbin-Watson stat	2.588	2.584	2.622	2.626

Notes
Panel OLS with White cross-section standard errors & covariance (d.f. corrected) are used
The model includes a constant and an AR(1) terms
***, **, * indicate significance at 1%, 5%, and 10% respectively.
Numbers in parenthesis are t-statistics.

Table (4.8) shows the entire results for the effect of BI, board characteristics, OS and control variables on the FP measured by EPS. The results are jointly significant at 1%, 5% and 10% of significance. The models of the study show that $R^2$are (0.824), (0.824), (0.831), (0.830) respectively.

The Table presents that the board meeting has an insignificant positive effect on FP measured by EPS. There is a negative effect of board size on FP measured by EPS and it`s insignificant of the models (1,3,4) but its significant at 5% of the model (2). There is an insignificant positive effect of CEO duality on EPS under model (1) and model (2). On the other hand, there is a significant positive effect of CEO duality on EPS under model (3) and model (4) at level 1%. There is an insignificant negative effect of women on the board on ROE under models (2,3,4). On the other hand, it is significant at 10% under model (1).

There is no relationship between number of interlocking and EPS as the coefficient is (0.00). From another perspective, there is an insignificant negative effect of the interlocking per board member on the EPS. On the other hand, there is an insignificant positive effect of foreign ownership on the EPS. Institutional ownership has a significant negative effect on EPS level 1%. There is an insignificant negative effect of large ownership on the EPS in model (3) and model (4).

There is a significant and negative effect of leverage on EPS at 10% on models (1, 2, 3) and insignificant effect in models (4). Eventually, there is a significant positive effect at significance level 1% for firm size on the EPS.

Table (4.9): Summary of Robustness Test for ROE and EPS models

	ROE		EPS	
Variable	**significant**	**Sum of Squares**	**significant**	**Sum of Squares**
Meetings	Negative	significant with models 3,4	Positive	-
BODZ	Negative	significant with models 2,3	Negative	significant with model 2
BCEO	Negative	-	Positive	significant with models 3,4
Women	Positive	significant	Negative	significant with model 1
NOI	Negative	-	Positive	-
IPB	Negative	-	Negative	-
FORN	Positive	-	Positive	-
INSTIT	Negative	significant	Negative	significant
MAGOR	Negative	-	Negative	-
LEV	Negative	significant	Negative	significant with models 1,2,3
SIZE	Positive	significant	Positive	Significant

Chapter Five

CHAPTER 1: Conclusion and Recommendations

Chapter Five

Conclusion and Recommendations

5.1 Introduction

This study aims to explore the impact of BI, board characteristics and OS on the FP of Palestinian listed corporations during the period of 2011-2018.

This chapter demonstrates and summarizes the key findings and results in four Sections. Section 5.1 shows the summary of the main results of the thesis. Section 5.2 provides the recommendations and implications of the thesis. 5.3 shows the limitations of the thesis. 5.4 presents some theoretical implications for further research and studies in this field.

5.2 Summary of the Main Findings

5.2.1 Board Structure Characteristics and Financial Performance (FP)

5.2.1.1 Board Interlocking (BI) andFinancial Performance (FP)

The study finds a **negative** effect of board interloking as measured by number of interlocking and interlocking per board member on corporate FP measured by ROA. This indicates that BI leads to conflicts of interest. An extremely centralized and compressed network of directors can create a social system in which the BD are faithful to each other and just act on their own interest. Santos and da Silveira (2007) argue that there is a negative relationship between BI and the firm`s value measured by Tobin's

Q in Brazilian companies. Drago et al. (2015) argue that there is a negative effect of interlocking on FP in Italian companies. Fligstein and Brantley (1992) find that interlocks decrease FP as it imposes higher costs on firms as the interlocking directors do not have adequate time to attend all board of director's meetings and discussions. Furthermore, other researchers argue that external directors with several directorships are attributed with weak CG (Fich & Shivdasani, 2006). Accordingly, busy directors may affect negatively firms' performance.

On the other hand, the study finds a positive impact of board interlocking measured by number of interlocking and interlocking per board member on the corporates'FP measured by Tobin's Q. Allen (1974) argues that there is a positive effect of BI on corporate FP as corporate director interlocking is perceived as an important cooperative strategy between corporations for decreasing sources of uncertainty in their environments.

5.2.1.2 Board Size and Financial Performance (FP)

The findings with respect to the board size indicate that board size has negative and significant effect on the performance measured by ROA and Tobin`s Q. This result contrasts with Abdelzaher and Abdelzaher (2019) who argue that there is a positive correlation between the board size and FP of corporations listed in Egyptian Exchange. Increasing board size may lead to an increase coordination and communication problems and decrease board of directors` efficiency in controlling and monitoring agents (Eisenberg, Sundgren, & Wells, 1998).

Increasing board of director’s decreases, the potential and aptitude of directors to disapprove and criticize senior executive management and to analyze corporate FP efficiently (Lipton & Lorsch, 1992). Furthermore, this research is in consistent with M. C. Jensen (1993) who finds that increasing the board size is more expected to confront high costs to control and oversight the corporation and they are less expected to have efficient function when the board size is larger than (7-8) directors. Likewise, Anderson, Gillan and Deli (2003) support small board size. As well, the result confirms Yermack (1996) who finds that there is a negative relationship between the board size and firm FP measured by Tobin ‘s Q for (452) large scale US corporations throughout the period from 1984 to 1991. He demonstrates that a small board has more favorable values for financial ratio. Likewise, Yermack (1996) argues that the incremental cost will rise as long the number of board members’ increases, and the corporation will achieve greater market value if the number of the board is smaller.

This finding contradicts the general theme of the stewardship and resource dependency theories. The two theories assume that there is a positive correlation between size of the BD and corporate FP. They assume that increasing the board size helps the company to diversify its competencies, skills and knowledge, which lead to efficient participation and experience sharing among the members of the board.

5.2.1.3 CEO Duality and Financial Performance (FP)

The study discovers a positive correlation between CEO duality and corporate FP measured by ROA. On the other hand, there is a negative effect of CEO duality on FP measured by Tobin's Q. The positive effect of CEO duality on FP measured by ROA contrasts the AT that assumes the separation of CEO and chairman positions acts an important role in improving the FP of the corporation as it increases the monitoring, controlling and over-sighting efficiency over the senior management and protects small investors from the manipulation of large dominated investors in listed corporations. The result supports the STT that argues that separation of duties between the CEO and the chairman positions decreases corporate FP. The theory assumes that efficient management is based on "the principle of the unity of command".

In addition, this result is in agreement with Dal Vesco and Beuren (2016) who find that there is a positive effect of the CEO duality on the FP of Brazilian corporations measured by ROA. The CG recommendations in Palestine suggest that there must be separation between the CEO and the chairman to enhance the efficiency and quality of monitoring and controlling practices in Palestinian corporations and protecting the interests of small investors in these corporations.

5.2.1.4 Women in the Board and Financial Performance (FP)

The study results demonstrate that there is a positive effect of **women on the board** on FP measured by ROA. This result is in consistent with Abdelzaher and Abdelzaher (2019) who find that there is a positive significant relationship between percentage of women on board members and corporate value measured by return on equity in non-financial corporations in Egypt. Furthermore, this result is in consistent with Adams and Ferreira (2009), Amore et al (2014) and Menozzi et al. (2015) who find that the existence of female in the BD increases the efficiency of the monitoring, controlling, and decreasing agency problems in the listed corporations.

Conversely, there is a negative effect of women on the board on the FP measured by Tobin`s Q. This result is in consistent with Carter et al. (2010); Chapple and Humphrey (2014) who find that there is a negative effect of women in the board on FP measured by Tobin`s Q. They argue that women are selected in the board of director based in nepotism, friendliness relations rather than based on their qualifications and experiences.

5.2.1.5 Board Meetings Frequency and Financial Performance (FP)

Our analysis of the number of board meetings, the study results confirm reveals that there is an insignificant and negative effect of number of meetings on the FP measured by ROA. This result is in consistent with

Rodriguez-Fernandez, Fernandez-Alonso and Rodriguez-Rodriguez (2014) who find that there is a negative effect of the number of boards on the FP of listed Spanish corporations.

On the other hand, there is an insignificant and positive effect of number of meetings on the FP measured by Tobin`s Q. This result is in consistent with the AT that assumes increasing the number of board meetings will increase the efficiency of monitoring and controlling over the senior executive management. Finkelstein and D'aveni (1994) argue in light of the AT perspective, the BD has an essential role in monitoring, running board meetings, confirming that all the matters that relevant to the business are listed in the agenda to be discussed in the board meeting, hiring and firing, and replacing the CEO if the latter is deemed to be negligent in serving the interests of the shareholders. Eluyela et al. (2018) find that there is a positive and significant relationship between board meeting frequency and corporate performance in deposit money banks in Nigeria. As well, this result is in consistent with Al-Daoud, Saidin and Abidin (2016) who find a positive and significant relationship between the board meetings frequency and FP of industry and service sectors corporations listed on Amman Stock Exchange. Furthermore, this result is in agreement with Hoque et al., (2013) and Al-Manaseer et al., (2012) who find a positive effect of audit committee meetings frequency and remuneration committee meetings on FP.

5.2.2 Ownership Structure Variables and Corporate Financial Performance

5.2.2.1 Large Ownership and Financial Performance (FP)

The findings of the multivariate regression analysis find that there is a negative effect of large ownership on corporate FP measured by ROA. This result is in consistent with Omrana et al. (2008), Shan, and McIver (2011). Millet-Reyes and Zhao (2010) find that large ownership has a negative and significant effect on corporate FP by ROA. Likewise, Cronqvist and Nilsson (2003) find that large ownership affects negatively on corporate FP measured by ROA and ROE.

5.2.2.2 Institutional Ownership and Performance

The study reveals a significant negative effect of institutional ownership on corporate FP measured by ROA. Hart (1995) demonstrates that there are two problems of institutional investors as those investors hold large stake of ownership in one corporation as ownership of large stake will decrease the potential to invest outside the corporation. This indicates that corporations` ownership will decrease the potential to diversify the investment opportunities among various investment opportunities. Besides, this result is in consistent with Laeven and Levine (2007) who find that "more than 40% of corporations in Western countries are considered by the presence of family investors and other large non-family shareholder (such as institutional investors) owning at least 10% of the company's shares.

Furthermore, in several cases domestic institutional investors may offer diverse objectives and needs compared to family shareholders that may support or decrease the family businesses` performance.

On the other hand, there is a significant and positive effect of institutional ownership and large ownership on Tobin`s Q. Fama (1980) finds that institutional ownership affects positively firm`s FP. Likewise, Berger and Udell (2003) find that there is a positive significant relationship between institutional ownership and FP of the corporation.

5.2.2.3 Foreign Ownership andFinancial Performance (FP)

The study results indicate that there is a positive and insignificant effect of foreign ownership on firm`s performance measured by Tobin`s Q. This result is in consistent with Kumar (2004) who demonstrates that foreign owners have more experience, competencies and aptitude than local investors do. Furthermore, those investors perform a detailed analysis before taking the investment decision in a country and they search for efficient investment opportunities. Likewise, Sarkar and Sarkar (2000), (Sarac, 2002), Mangena and Tauringana (2007) indicate that there is positive association between foreign investment and FP.

5.2.3 Control Variables on Corporate Financial Performance (FP)

5.2.3.1 Firm’s Size and Financial Performance

The study results confirm that there is a positive and significant effect of firm`s size on corporate FP measured by ROA. This may take place if the company uses its all available resources effeciently as large companies have more potential to take advantage of the economies of scale and decrease the fixed cost per unit and take advantage from economies of scope. Serrasqueiro and Nunes (2008) argue that large-scale businesses have more potential to increase their funds and create more diversified strategies. Furthermore, they have a different set of experienced management employees. Besides, Argawal and Knoeber (1996) consider large-scale businesses enjoy a better position of security and inspections, making it hard to extract any kind of private benefits. Furthermore, large-scale businesses have more power and presence in the market that improve and increase their FP. As well, the result is in consistent with Haniffa and Hudaib (2006), and Akbas and Karaduman (2012) who find a positive effect of firm size on the FP. Isik et. al., (2017) demonstrate that there is positive effect of firm size on FP in manufacturing companies in Turkey.

On the other hand, There is a negative significant effect of firm size on corporate performance measured by Tobin`s Q. Shen (2012) reveals that there is a negative effect of firm size on FP, as small firms tend to achieve better FP in case of UK.

5.2.3.2 Corporate Financial Leverage and FP

Eventually, there is a negative effect of corporate financial leverage on corporate FP measured by ROA and Tobin`s Q. Myers (1977) argues that the existence of high levels of leverage may undesirably influence the firm`s FP. This is because the increase in financial leverage affects adversely the ability of the business to increase new debt issuance. This finding is in consistent with Tong and Ning (2004), Andrade and Kaplan (1998) who find that there is a negative effect of leverage on corporate FP. Thus, business that have higher leverage tend to underperform businesses with lower financial leverage.

Furthermore, this result is an in agreement with Ebaid (2009) who finds that there is a negative relationship between financial leverage in non-financial listed corporations in Egypt. Likewise, Domenichelli (2012) demonstrates that there is a negative and significant correlation between debt to assets as a measurement of financial leverage and corporate FP measured by ROE of Italian businesses in the region of March.

5.3 Recommendations of the Study

The findings of this thesis on the effect of CG and OS on FP demonstrate that there are several similarities and differences among corporations and countries.

The researcher uses several CG and ownership theories including the AT, the STT, the ST and resource dependency theories. The study results confirm that BD and OS act a significant role in affecting FP. This is applicable and interesting within listed companies in Palestine due to nature of these corporations.

The implications of this research are very interesting for improving and supporting the Palestinian economy as the existence of well governed businesses act an essential role to achieve economic growth and development, as the existence of stable and strong listed companies promote better economic growth, increasing investors’ confidence in the financial market and listed companies.

Based on the thesis findings the researcher suggests the following practical recommendations and suggestions:

5.3.1 Recommendations for Companies

1. The researcher suggests that listed companies should decrease the BI by ensuring to supplement new board members who are not interconnected. The researcher finds that there is a negative effect of interlocking on FP.

2. The researcher suggests that there is a necessity to keep the size of the board to a minimum size as that will give the companies the potential and power to carry out their supervision activities efficiently. Furthermore, the BD should include professional and experts who have good experience, awareness and knowledge with the controlling and oversight duties and activities.

3. There is necessity to rationalize the number of board meetings as the increasing number of meeting will increase the agency costs due to high costs and expenses attributed to bonuses and numerations of the directors and their travel and compensation expenses.

5.3.2 Recommendations for Regulators

1. Capital Market Authority and the other supervisory organizations should set rules and regulations that decrease the large ownership and institutional ownership in Palestinian listed. The study finds a negative effect of large ownership and institutional ownership on FP as setting the large ownership in hand of small number of investors will give them more potential and ability to manipulate the interests of small investors.

2. There is a necessity to adopt policies and laws that promote and encourage foreign ownership in listed companies in Palestine since the inflow of foreign investment will enhance the economic development in the country.

5.4 Limitations of the Thesis

1. This thesis investigates the effect of board characteristics, BI and OS on FP of listed companies in Palestine. However, the researcher did not conduct a comparative study among the different economic sectors.

2. The researcher discusses the listed corporations only. The researcher has excluded unlisted businesses due to the lack of available information either financial or non-financial information about these businesses.

3. The researcher conducts this research in Palestinian context. However, it is impractical to generalize the findings for other countries and contexts in the world.

4. The researcher uses the secondary data only through obtaining the data from the annual reports. However, if the researcher integrates both the secondary and primary data, this may give the researcher clearer perspective and awareness about the effect of board characteristics, OS and interlocking on FP.

5.5 Suggestions for Further Researches

1. The researcher suggests further comparative studies to be conducted in MENA region countries. This would provide give better insight and awareness about the effect of board characteristics, OS and interlocking on FP. Besides, to explain if the theories of CG and ownership are applicable to these countries and regions.

2. The researcher suggests further studies and researches through exploring the differences between the different economic sectors in Palestine.

3. The researcher suggests further studies through using different data collection tools such as using interviews and questionnaires as this will deepen the awareness and recognition of CG in Palestinian listed companies on issues for instance selection processes of the directors, the actual functions, responsibilities and duties of the BD and its evaluation.

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كلية الدراسات العليا

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قدمت هذه الاطروحة استكمالا لمتطلبات الحصول على درجة الماجستير في التمويل بكلية الدراسات العليا في جامعة النجاح الوطنية في نابلس، فلسطين.

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الملخص

يعتبر هيكل الملكية، وخصائص مجلس الإدارة، والتداخل بين أعضاء مجالس إدارات الشركات (تعدد العضوية) من الموضوعات التي حظيت باهتمام كبير من الباحثين والمختصين في مجال المحاسبة والعلوم المالية، ولكن على النقيض من ذلك، فان هناك محدودية في الدراسات والبحوث التي تناولت هذه الموضوعات في الشركات المساهمة العامة المدرجة في بورصة فلسطين. لذلك، تهدف هذه الدراسة التعرف على تأثير خصائص مجلس الادارة، وهيكل الملكية، وتداخل أعضاء مجلس الإدارة على الأداء المالي للشركات المساهمة العامة المدرجة في بورصة فلسطين. وبالتالي تتمثل أهمية هذه الدراسة في المساهمة في سد الفجوة في النقص في الدراسات والبحوث التي تناولت هذا الموضوع في البيئة الفلسطينية. ويعتمد الباحث في هذه الدراسة على مجموعة من النظريات التي تحاول تفسير العلاقة بين هذه المتغيرات وخاصة نظرية الوكالة، ونظرية أصحاب المصالح، وغيرها من نظريات ذات علاقة.

يعتمد الباحث في هذه الدراسة على التقارير السنوية للشركات المساهمة للحصول على بيانات الدراسة للفترة الواقعة ما بين عامي 2011-2018، ويعتمد الباحث في هذه الدراسة على استخدام بيانات زمنية مقطعية لكافة الشركات المساهمة العامة المدرجة في بورصة فلسطين والتي تتوفر لها البيانات المطلوبة خلال تلك الفترة المحددة في الدراسة، وقد بلغ عدد الشركات المساهمة العامة كما هي في نهاية عام 2018 ثمانية وأربعين شركة، وقد تبين ان هناك خمسة وأربعين شركة تتوفر لديها كافة البيانات المالية المطلوبة. اشتملت متغيرات الدراسة على العائد على الأصول (ROA)

ومقياس (Tobin`s Q) كأهم المؤشرات المستخدمة في قياس الأداء المالي للشركات المدرجة في البورصة. بينما تم قياس خصائص مجلس الإدارة من خلال (عدد أعضاء مجلس الإدارة، وازدواجية منصب رئيس مجلس الإدارة والمدير العام، ووجود نساء في عضوية مجلس الإدارة، وعدد اجتماعات مجلس الإدارة سنوياً)، وتم قياس هيكل الملكية من خلال (نسبة الملكية الأجنبية، ونسبة الملكية المؤسسية، ونسبة ملكية كبار المساهمين)، وتم قياس تعدد العضوية من خلال (عدد العضوية المتعددة، العضوية المتعدد لكل عضو).

خلصت الدراسة إلى العديد من النتائج كان من أهمها: وجود تأثير إيجابي لازدواجية منصب رئيس مجلس الإدارة والمدير العام، وجود نساء في مجلس الإدارة، والملكية الأجنبية وحجم الشركة على العائد على الأصول. بينما تبين وجود علاقة سلبية ما بين عدد اجتماعات مجلس الإدارة، وعدد أعضاء مجلس الإدارة، وعدد التداخل بين أعضاء مجلس الإدارة، والتشابك لكل مجلس، والملكية المؤسسية، وملكية كبار المساهمين والأداء المالي للشركات المساهمة العامة الفلسطينية.

أما من حيث متغير (Tobin`s Q) فقد تبين وجود علاقة إيجابية ما بين تكرار اجتماعات مجلس الإدارة، وعدد التداخل، والتشابك لكل عضو في مجلس الإدارة، والملكية الأجنبية، والملكية المؤسسية، وملكية كبار المساهمين والأداء المالي للشركات. ولكن على النقيض من ذلك، تبين وجود تأثير سلبي لمتغيرات عدد مجلس الإدارة، وازدواجية رئيس مجلس الإدارة والمدير العام، ووجود عنصر النساء في تركيبة مجلس الإدارة، والرافعة المالية للشركات وحجم الشركة على الأداء المالي.

أوصى الباحث في نهاية الرسالة بضرورة قيام الشركات المدرجة تقليل تشابك مجلس الإدارة من خلال ضمان وجود أعضاء مجالس إدارة جدد غير مترابطين مع شركات أخرى. كما أن هناك ضرورة لإبقاء حجم مجلس الإدارة عند الحد الأدنى لحجمه حيث أن ذلك سيمنح الشركات الإمكانات والقوة للقيام بأنشطتها الإشرافية بكفاءة. علاوة على ذلك، يجب أن يضم مجلس الإدارة مهنيين وخبراء يتمتعون بخبرة جيدة ووعي ومعرفة بمهام وأنشطة الرقابة والإشراف. في النهاية، هناك ضرورة لترشيد عدد اجتماعات مجلس الإدارة. إلى جانب ذلك، يجب على هيئة سوق المال

والمؤسسات الرقابية الأخرى وضع قواعد وأنظمة تقلل من الملكية الكبيرة والملكية المؤسسية في الشركات الفلسطينية المدرجة، وضرورة اعتماد سياسات وقوانين تعزز وتشجع الملكية الأجنبية في الشركات المدرجة في فلسطين.

كلمات مفتاحية: تعدد العضوية، هيكل الملكية، خصائص مجلس الإدارة، الأداء المالي، حوكمة الشركات.