A Descriptive Analysis of Corporate Governance Mechanisms and Earnings Management in Palestine

Ali Aljadba¹, Norhaziah Nawai² and Nur Hidayah Laili²*

Abstract
Research aims: The article aims to describe corporate governance (CG) characteristics and the extent of earnings management (EM) practices in non-financial firms listed on the Palestine Exchange from 2011 to 2018.

Design/Methodology/Approach: The study employed the quantitative methodology. Collected data were summarized quantitatively using descriptive analysis with STATA 14. CG data were retrieved manually from published annual financial reports, while financial data for the EM calculation were collected from Thomson ONE.

Research findings: Listed non-financial firms in Palestine only moderately complied with the Palestinian Code of Corporate Governance. Some Palestinian firms have also established an audit committee, one of the most important corporate governance mechanisms.

Theoretical contribution/Originality: The findings provide insight into CG and EM in Palestine for regulators and policymakers.

Practitioner/Policy implication: The results can assist policymakers in strengthening existing regulations and updating the current code of CG or introducing new policies to mitigate EM.

Keywords: Corporate Governance; Earnings Management; Descriptive Analysis; Palestine

Introduction

The world has seen in recent decades global financial scandals that resulted in the collapse of giant corporations in both developed and developing markets, such as Europe, the United States, Southeast Asia, and the Middle East and North Africa (MENA), especially those affected by the Arab Spring and continued conflict. These companies form an inexhaustive list, including Parmalat, Enron, HealthSouth, WorldCom, Xerox, Adelphia, Tyco, Qwest, and AIG (Idris et al., 2018; Lopes, 2018). The causes of their collapse were primarily poor corporate governance (CG) systems and earnings management (EM) practices (Aljadba et al., 2021). Indeed, EM is one of the most critical obstacles to financial reporting quality (Alzoubi, 2016). To mitigate such practices and other opportunistic behaviors of managers and to improve financial reporting quality, it is imperative that firms implement CG mechanisms. Without appropriate CG mechanisms in place, managers will be incentivized, by their opportunistic
behavior, to carry out EM practices, which may lead to a higher likelihood of corporate financial fraud (Leventis & Dimitropoulos, 2012). In light of this issue, this article provides descriptive statistics of CG characteristics and EM practices in non-financial firms listed on the Palestinian Exchange (PEX). The findings are expected to help identify CG mechanisms that still need improvement and reveal the level of EM practices among Palestinian non-financial firms.

In this case, Palestine is a developing country that must attract local and foreign investors to improve its economy. To accomplish this, PEX should do at least two measures: improving the performance of listed firms and enhancing financial reporting quality. These two measures are realized by reforming the current Palestinian Code of Corporate Governance (PCCG) issued by the Palestinian Capital Market Authority (PCMA). Hence, the output of this paper is expected to contribute to this effort. It can assist the PEX, PCMA, policymakers, and other stakeholders to collaborate to reform the PCCG, strengthening CG effectiveness and, eventually, the quality of financial reports.

Since its introduction in 2009, only a small proportion of listed firms, especially non-financial ones, have fully complied with the PCCG (Anastas, 2017). Compliance is also satisfactory only among banking and financial services firms. It is partly possible because of the continuous, direct supervision of the Palestinian Monetary Authority (PMA) over the administrative and financial operations of Palestinian banks (PEX, 2016). On the other hand, the services sector is the least compliant sector. Moreover, studies on the commitment of firms to comply with the PCCG remain limited. Therefore, it is necessary to examine the extent to which Palestinian-listed firms are committed to implementing the code’s regulations and conducting comprehensive reviews to increase its effectiveness (Anastas, 2017). Anastas has examined only the services sector, and this current article investigated listed non-financial firms comprising the services, manufacturing, and investment sectors. Additionally, studies on CG and EM practices in Palestine are still scarce (Abdelkarim & Zuriqi, 2020 & Aljadba et al., 2020). For that reason, this paper can fill this gap. This paper, therefore, aims to provide empirical evidence on EM practices and CG characteristics among non-financial firms listed in Palestine from 2011 to 2018.

Literature Review

Corporate scandals involving large corporations in developed and some developing economies have contributed to higher interest in corporate governance (CG) and earnings management (EM). Response to these financial scandals and failures include calls for more transparency and credibility to protect the interests of all stakeholders, but especially stockholders (Aljadba et al., 2021). EM is also a significant challenge facing CG mechanisms as it reduces financial reporting quality (Alzoubi, 2016; Saleem et al., 2016).

The CG issues emerging after the 2008 financial scandals were mainly caused by weak CG systems (Alareeni, 2018). EM can be restricted with effective and quality CG mechanisms. Conversely, weak CG mechanisms can promote EM and other financial fraud (Leventis &
Dimitropoulos, 2012). The importance of both CG mechanisms and EM have also been noted by every internal and external stakeholder of the corporation, including governmental bodies, regulators, auditing and accounting professionals, practitioners, policymakers, academicians, and the public.

CG mechanisms are essential to enhance financial reporting quality and credibility, attracting local and foreign investors. CG mechanisms also work to reduce EM practices to boost the quality of financial reports (Cornett et al., 2008), but the effect varies from one country to another due to certain factors, for instance, ownership concentration. Ownership structure may serve as an essential monitoring tool and influence how CG mechanisms are implemented, for instance, the composition of the BOD and its committees. Therefore, the researchers conducted this paper in the context of Palestine, the youngest country in MENA countries, and its capital market still emerged and is small.

Also, Palestine Exchange (PEX) is among the youngest exchanges in MENA (Hassan et al., 2016). It was established in 1995 as a private company and began its trading operations in 1997 to promote investments in Palestinian territories. In 2010, it became only the second public Arab Exchange wholly owned by the private sector. It is registered as a shareholding company licensed and regulated by the Palestinian Ministry of National Economy and is subject to its control. The Palestinian Capital Market Authority (PCMA) also supervises PEX to ensure sound CG mechanisms and protect investors. As of October 10, 2022, Palestine Exchange lists 49 firms across five sectors: banking (8), insurance (8), investment (11), industrial (13), and services (9). These sectors can be generally classified into financial and non-financial. The financial sector includes banks and insurance firms for 16 firms. The other three sectors fall under the non-financial sector for 33 firms (PEX, 2022). In addition, the securities of these firms are traded in either US Dollar or Jordanian Dinar, the two most common currencies in Palestine.

Further, this study analyzes a sample of non-financial firms listed on PEX for four reasons. First, they comprise 70 percent of all listed firms in PEX. Second, the Palestinian Code of Corporate Governance (PCCG) applies only to non-financial listed firms, whereas financial firms are subjected to another set of specific, strict CG codes. Third, non-financial firms differ in nature from financial firms. Finally, following the third point, the computation of EM in non-financial firms differs from that in financial firms.

Concerning PCCG first coming into effect in November 2009, it is obligatory only for listed firms. It comprises a set of CG rules based on applicable laws and regulations in Palestine (West Bank and Gaza Strip). The rules are related to the board of directors (BOD) and its committees, ownership structure, disclosure quality, internal audit function, and external audit characteristics. The PCCG development was guided by the Organization for Economic Cooperation and Development (OECD) governance principles and other governance rules at the regional and international levels (PCCG, 2009). The code also provides recommendations for CG mechanisms, such as general meetings, protection of shareholder rights, management of corporate executives, internal and external audit, disclosure, and transparency (PCCG, 2009).
Moreover, investor confidence is correlated with the capital market’s market strength and oversight tools, such as CG mechanisms (Chang & Sun, 2009). Besides, Aljadba et al. (2022) called for reviewing and updating corporate governance laws and regulations and the PCCG to attract more local and foreign investors to the Palestinian economy and protect them.

The PCCG (2009) recommends a BOD size of between five and 11 directors. They should be non-executive to limit their authority and responsibilities. Every BOD should include two independent members, i.e., directors unrelated to the firm and not influenced by external circumstances. The PCCG also recommends the establishment of a remuneration committee, a governance committee, and an audit committee (AC). The first two committees aid the board in developing remuneration and governance policies, while the AC helps the BOD to ensure transparency and determine the appropriate level of risk.

### Research Method

The research sample was selected using the following criteria. First, only non-financial firms listed on PEX were included. Second, the firms should not be suspended or stopped trading throughout the sample period (2011–2018). Third, firms with incomplete reports were excluded. In 2018, 48 firms were listed on PEX. Then, 33 firms were in the non-financial sectors of industries, services, and investment. After excluding 15 financial firms and four non-financial firms due to incomplete data (missing annual reports), the final sample was 29 firms. It is summarized in Table 1.

CG data of the sample firms were collected from their 2011–2018 annual reports (secondary data) published on the PEX website. Each firm published two files on PEX. The first contained the three financial statements (balance sheet, income statement, and cash flow statement) and several financial ratios. Meanwhile, financial data related to EM and the control variables were gathered from Thomson ONE. Then, where a firm’s data was missing, they were manually collected from its annual report. The second file comprised non-financial data, such as board characteristics, ownership structure, and audit committee characteristics, which were collected manually.

### Table 1 Research Population and Sample

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms on PEX as of 2018</td>
<td>48</td>
</tr>
<tr>
<td>Less: Financial listed firms</td>
<td>(15)</td>
</tr>
<tr>
<td>Non-financial listed firms as of 2018</td>
<td>33</td>
</tr>
<tr>
<td>Less: Non-financial listed firms with missing reports</td>
<td>(4)</td>
</tr>
<tr>
<td>Final sample</td>
<td>29</td>
</tr>
<tr>
<td>Total firm-year observations (2011–2018)</td>
<td>232</td>
</tr>
</tbody>
</table>
Results and Discussion

Descriptive Statistics of Earnings Management

Table 2 presents the descriptive analysis results. The mean discretionary accruals were 0.0617, with a maximum value of 0.7639. This mean value is consistent with past studies in the Jordanian context, e.g., Idris et al. (2018), AbuSiam (2015), and Abbadi et al. (2016). In Egypt, Rahman and Ali (2006) also found a mean of 0.066, while Bassiouny et al. (2016) uncovered its mean and maximum to be respectively 0.042 and 0.862. These findings indicate that the DAC in Palestine is approximate to that in neighboring countries.

Table 2: Descriptive Statistics of the Dependent Variable - EM

<table>
<thead>
<tr>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>232</td>
<td>0.0617</td>
<td>0.0734</td>
<td>0.0000</td>
<td>0.7639</td>
</tr>
</tbody>
</table>

EM data of all sample firms were collected for eight years (2011–2018) (Table 3). On average, EM in 2017 was the highest throughout the sample period. Nonetheless, the low standard deviations indicated a slight divergence between the EM measurements and means across the years. There were also outliers in some years, as the maximum and minimum values diverged significantly from the means.

Table 3: Descriptive statistics of EM from 2011 to 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>29</td>
<td>0.0667</td>
<td>0.0544</td>
<td>0.0041</td>
<td>0.2663</td>
</tr>
<tr>
<td>2012</td>
<td>29</td>
<td>0.0609</td>
<td>0.0585</td>
<td>0.0026</td>
<td>0.2301</td>
</tr>
<tr>
<td>2013</td>
<td>29</td>
<td>0.0523</td>
<td>0.0449</td>
<td>0.0006</td>
<td>0.1901</td>
</tr>
<tr>
<td>2014</td>
<td>29</td>
<td>0.0448</td>
<td>0.0389</td>
<td>0.0042</td>
<td>0.1460</td>
</tr>
<tr>
<td>2015</td>
<td>29</td>
<td>0.0663</td>
<td>0.1008</td>
<td>0.0015</td>
<td>0.5326</td>
</tr>
<tr>
<td>2016</td>
<td>29</td>
<td>0.0534</td>
<td>0.0393</td>
<td>0.0012</td>
<td>0.1327</td>
</tr>
<tr>
<td>2017</td>
<td>29</td>
<td>0.0832</td>
<td>0.1376</td>
<td>0.0011</td>
<td>0.7639</td>
</tr>
<tr>
<td>2018</td>
<td>29</td>
<td>0.0657</td>
<td>0.0532</td>
<td>0.0000</td>
<td>0.2329</td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>0.0617</td>
<td>0.0734</td>
<td>0.0000</td>
<td>0.7639</td>
</tr>
</tbody>
</table>

Note: ANOVA F =0.74, p = 0.6399, indicating no significant difference in EM throughout the sample period. It is thus unnecessary to include the year as a categorical variable in the analysis.

Descriptive Statistics of the Control Variables

Table 4: Descriptive Statistics of the Control Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIRMAGE</td>
<td>232</td>
<td>24.05</td>
<td>15.384</td>
<td>2</td>
<td>73</td>
</tr>
<tr>
<td>CASHFLOW</td>
<td>232</td>
<td>0.0386</td>
<td>0.0892</td>
<td>-0.5306</td>
<td>0.3672</td>
</tr>
<tr>
<td>GROWTH</td>
<td>232</td>
<td>0.0326</td>
<td>0.1488</td>
<td>-0.5814</td>
<td>1.2468</td>
</tr>
</tbody>
</table>

Note: FIRMAGE = The number of years since the firm was established. CASHFLOW = The net cash flow from operating activities divided by total assets. GROWTH = Change in total assets divided by lagged total assets.

From Table 4, the mean, maximum, and minimum values of firm growth were respectively 24.05, 1.2468, and -0.5814. These results are consistent with findings in Indonesia (M =
0.040, Max = 1.225, Min = -0.411) (Harymawan & Nowland, 2016). The mean age of the sample firms was 24 years. It is almost similar to Egypt, where Bassiouney et al. (2016) found the mean firm age to be 27 years. However, it differs from 140 Greek listed firms, whose mean age was 34 years (Koufopoulos & Gkliatis, 2018).

In addition, the sample firms experienced a cash flow shortage, as indicated by the mean cash flow from operating activities ($M = 0.0386$). It becomes more apparent compared to listed non-financial Saudi firms, whose mean cash flow, as Alsultan (2017) revealed, was 0.1067. This gap indicates that Saudi firms are more capable of generating operating cash flow than Palestinian firms. A likely reason for this is the more conducive and stable business environment in Saudi Arabia compared to Palestine.

### Descriptive Statistics of BOD Characteristics

The second set of findings was obtained from the descriptive analysis of six BOD characteristics (Table 5). The means of these characteristics mainly were $< 1$, except for board size and frequency of meetings.

#### Table 5 Descriptive Statistics of BOD Characteristics

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Descriptive Statistics of Continuous Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BODSIZE</td>
<td>232</td>
<td>8.790</td>
<td>2.222</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>BODMEET</td>
<td>232</td>
<td>5.920</td>
<td>1.490</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>BODINDEP</td>
<td>232</td>
<td>0.880</td>
<td>0.170</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>BODND</td>
<td>232</td>
<td>0.160</td>
<td>0.210</td>
<td>0</td>
<td>0.875</td>
</tr>
<tr>
<td><strong>Descriptive Statistics of Dichotomous Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BODRE_GC</td>
<td>232</td>
<td>0.330</td>
<td>0.472</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>CEO_DUAL</td>
<td>232</td>
<td>0.190</td>
<td>0.390</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: BODSIZ = The number of members on a board. BDMEET = The frequency of annual board meetings. BODINDEP = The proportion of independent directors to BOD size. BODND = The proportion of foreign directors to BOD size. BODRE_GC = Dummy variable: "1" for a company with this committee and "0" otherwise. CEO_DUAL = Dummy variable: "1" if the CEO is also the chairman and "0" otherwise.

Table 5 shows that the mean size of the board was 8.79 members, $SD = 2.222$. It aligns with a recommendation from Lipton and Lorsch (1992) that a board should be comprised of eight to nine members to ensure its effectiveness in carrying out its duties. In fact, this value of mean is consistent with PCCG’s recommendation of five to 11 members in a board, suggesting that the sample firms generally complied with the code, at least in terms of board size. The finding is also in line with past studies in Palestine, which found that the average board size to be eight to nine members (e.g., Asmar et al., 2018; Hassan & Hijazi, 2015; Hassan, 2016; Kutum, 2015; Dwekat et al., 2018; Abdeljawad & Masri, 2020). Firms in Jordan (e.g., Makhlof et al., 2018; AbuSiam, 2015) and Malaysia (Rahman & Ali, 2006) also had eight directors, on average.

In addition, the BOD of the sample firms approximately met six times per year. This practice corroborates with the PCCG recommendation. It is also consistent with other studies in the Palestinian context (Abdeljawad & Masri, 2020; Asmar et al., 2018; Kutum,
However, compared to firms in the developed market, Palestinian firms’ meeting frequency is still low. The BODs of firms in the United States (Xie et al., 2003) and the United Kingdom (Habbash, 2010) also met approximately eight times a year. In this regard, more frequent BOD meeting strongly indicates BOD effectiveness (Vafeas, 1999). Table 5 also displays that the BODs of the sample firms were mainly independent, as indicated by the high proportion of non-executive directors ($M = 0.88$). It suggests that at least 88 percent of board directors were non-executive. However, it is still not aligned with the PCCG, recommending that the BOD be entirely comprised of non-executive directors. In addition, the mean of BOD independence is relatively similar to other studies in the Palestinian context, e.g., Zaid et al. (2019), Falah (2017), Kutum (2015), Dwekat et al. (2018), and Abdeljawad and Masri (2020), who found the proportion of non-executive directors to be between 71–92 percent.

Besides, Table 5 presents that most board members were Palestinians ($M = 0.84$), while only 16 percent were of another nationality. It is consistent with Jordanian firms, as Ibrahim and Hanefah (2016) and Maklouf (2017) found that only 10–11 percent of their directors were non-Jordanian. In fact, this study is the first to examine the proportion of foreign directors in Palestinian firms. The proportion is good, considering PEX is still developing and heavily affected by political instability. It is also aligned with the PCCG’s recommendation to establish a board with directors of diverse expertise, experience, and origin to enhance its effectiveness.

This study is also the first to examine the committee of remunerations and governance (BODRE&GC) in Palestine. Table 5 reveals that only one-third of the sample firms have established this committee. It was lower than Jordanian firms (50 percent), as AbuSiam (2015) revealed. In addition, this finding suggests that the sample firms have not complied with the PCCG, recommending this committee’s establishment to assist the BOD in performing its responsibilities effectively by enhancing the financial and administrative transactions’ quality, credibility, and transparency.

Also, from Table 5, CEO duality was present in only 19 percent of the sample firms, while the remaining 81 percent separated the roles of the CEO and board chairman. It means that 19 percent of the sample firms did not comply with the PCCG, which recommends separating the two posts. Still, the mean of CEO duality is consistent with Zaid et al. (2019), who uncovered that CEO duality was present in 19 percent of listed Palestinian firms in 2013–2016. Other studies in the Palestinian context also found comparable figures, e.g., Dwekat et al. (2018) (17.5 percent), Abdelkarim and Zuriqi (2020) (18 percent), and Abdeljawad and Masri (2020) (19 percent). Even Hassan (2016) revealed a much smaller proportion of CEO duality in Palestine, 13 percent. In summary, CEO duality has not been present in most listed Palestinian firms.

Descriptive Statistics of AC Characteristics

The third set of findings was attained from the descriptive analysis of audit committee (AC) characteristics (Table 6). The values of all variables ranged between zero and one except for AC size, whose minimum and maximum values were two and five members.
The upper part of Table 6 shows the descriptive statistics for all firms in the sample, while the lower part only includes firms with AC. The table also illustrates that almost half of the sample firms (47.5 percent) have established an AC. It is consistent with Alia et al. (2020), who similarly found that 47 percent of listed non-financial Palestinian firms had an AC. This finding suggests that these firms have complied with the PCCG recommendations.

Table 6 presents that the mean AC size for the sample was 1.48 members, with a minimum of zero and a maximum of five members. The mean and minimum values suggest that some firms have not established an AC, as its formation is still voluntary. In addition, the mean AC size for firms with AC was 3.17 members. These results align with findings from Palestine, e.g., Asmar et al. (2018) and EL-Nabi (2016), Jordan (AbuSiam (2015)), and the United Kingdom (Habbash, 2010), which revealed that the mean AC size was around three members. The findings also indicate that more than half (52.5 percent) of the listed non-financial firms have not complied with the PCCG recommendation to establish an AC (Alia et al., 2020).

Table 6 also shows that AC independence for the entire sample was still low, \( M = 0.34 \). On the other hand, the mean AC independence for firms with an AC was 87 percent. Additionally, AC independence’s maximum and minimum values were 100 percent and 0 percent. The results suggest that some firms have complied with the PCCG recommendation as, on average, financial experts comprised one-third of the ACs of the firms.

However, since some firms did not appoint any financial experts in their AC or did not have an AC, they had a minimum value of zero for ACFEXP. It can be attributed to the fact that AC remains optional for listed firms. The mean ACFEXP here is consistent with Saleem (2016), who uncovered that around 30 percent of Palestinian firms had financial experts in their AC. However, it is still below other countries, for instance, Jordan, where financial experts constituted around 41 percent of the AC of listed firms (Abu Siam et al., 2018).

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Descriptive Statistics of the AC Characteristics for the whole sample</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACSIZE</td>
<td>232</td>
<td>1.480</td>
<td>1.595</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>ACINDEP</td>
<td>232</td>
<td>0.340</td>
<td>0.476</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>ACFEXP</td>
<td>232</td>
<td>0.300</td>
<td>0.460</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Descriptive Statistics of the AC Characteristics for the Firms with AC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACSIZE</td>
<td>111</td>
<td>3.170</td>
<td>0.464</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>ACINDEP</td>
<td>111</td>
<td>0.875</td>
<td>0.224</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>ACFEXP</td>
<td>111</td>
<td>0.330</td>
<td>0.316</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: ACSIZE = Total members of AC. ACINDEP = The proportion of non-executive directors to AC size. ACFEXP = Share of AC members with financial expertise to AC size.
Descriptive Statistics of Ownership Structure Variables

The final set of variables discussed in this paper was ownership structure (Table 7). The variable value ranged between zero and one with minor standard deviations. The mean of ownership concentration (OWNCONC) was 57.18 percent, indicating high ownership concentration. In other words, a few investors might control the listed firms. Hassan (2016) also found that the mean ownership concentration was 2.6 investors for Palestinian firms, while the maximum and minimum values were seven and zero. The table also displays that the maximum and minimum values were 100 percent and zero, meaning that block holders did not control some firms. This finding is in line with Abdelkarim and Zuriqi (2020), who found that ownership concentration was present in 57 percent of listed non-financial Palestinian firms. They also revealed that the minimum value of ownership concentration was zero, indicating ownership dispersion among stockholders. Dwekat et al. (2018), on the other hand, uncovered the mean ownership concentration to be 65 percent, almost similar to this study’s finding. In the United Arab Emirates and Jordan, Hassan et al. (2017) found that ownership concentration was 51 percent on average. Taken collectively, these findings suggest that ownership concentration is a characteristic of Middle Eastern markets.

Table 7 Descriptive Statistics of the Ownership Structure Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>OWNERCONC</td>
<td>232</td>
<td>0.572</td>
<td>0.244</td>
<td>0.000</td>
<td>0.929</td>
</tr>
<tr>
<td>INSTIOwner</td>
<td>232</td>
<td>0.568</td>
<td>0.304</td>
<td>0.000</td>
<td>0.959</td>
</tr>
<tr>
<td>FOREOWNER</td>
<td>232</td>
<td>0.248</td>
<td>0.279</td>
<td>0.000</td>
<td>0.924</td>
</tr>
</tbody>
</table>

Note: OWNERCONC = Percentage of stockholders who own more than 5 percent of the total shares; INSTIOwner = Percentage of ordinary shares held by institutional investors to total equity; FOREOWNER = Percentage of ordinary shares held by foreign investors to total ordinary shares.

Table 7 also presents that institutional investor constituted more than half (56 percent) of investors in the sample firms, whereas foreign investors (FOREOWNER) only owned 25 percent of the outstanding shares. These mean values corroborate with other research in Palestine, e.g., Hassan et al. (2016) and Zaid et al. (2020), which found that institutional and foreign owners made up around 48–52 percent and 25–27 percent of all investors. Meanwhile, Ijbara and Khoury (2009) revealed that the mean of institutional ownership in Palestine was 43 percent, close to this study. According to Saleh et al. (2020), foreign ownership in Palestine is still minimal in quantity and role. It is likely caused by political unrest in Palestine, creating a risky investment environment that discourages foreign investors.

Conclusion

The findings generally indicate that the CG characteristics and EM practices of Palestinian non-financial firms are approximately similar to those in neighboring countries. However, the maximum values were relatively high, so policymakers, accountancy bodies, and regulators must work together to mitigate EM practices in Palestine.
In addition, there was a cash flow shortage from operating activities among the sample firms, likely caused by the unstable business environment. Then, the BOD size of the sample firms has been consistent with the PCCG recommendations. In this aspect, the firms have generally been compliant with the PCCG. They have also complied with the PCCG regarding board meeting frequency, as, on average, the BOD of the sample firms met six times a year. Besides, the BODs of the firms were mostly comprised of non-executive directors. It is a positive finding as it indicates that the BODs of Palestinian firms are highly independent. It also aligns with the PCCG’s recommendation to establish a BOD entirely comprised of non-executive directors. The proportion of foreign directors on the BODs of the sample firms is also relatively good, considering PEX is still developing and under continuous political instability.

Nevertheless, most sample firms have not complied with the PCCG recommendation to establish a remuneration and governance committee. This committee must assist the BOD in performing its duties by enhancing financial and administrative transactions' quality, credibility, and transparency.

Moreover, CEO duality was not an issue among the sample firms, as it was present in only 19 percent of them. It means that 81 percent of the sample firms have complied with the PCCG, which requires the separation of the offices of the CEO and board chairman.

Further, AC remains voluntary for listed firms, which explains why more than half of the sample firms (52.5 percent) have yet to establish an AC (Alia et al., 2020). It also means that they have not complied with the PCCG. AC independence was also only found in 34 percent of the sample firms. Some firms have not appointed financial experts to the AC, while others have not established an AC. This situation is possible because AC is optional for listed non-financial firms in Palestine.

Finally, the study has descriptively examined the ownership structure of the sample firms. The variable value ranged between zero and one with minor standard deviations. The mean of ownership concentration (OWNCONC) was 57.18 percent, indicating high ownership concentration. In other words, a few investors might control the listed firms. Institutional investors constituted more than half (56 percent) of investors in the sample firms, whereas foreign investors (FOREOWNER) only owned 25 percent of the outstanding shares. It is likely caused by political unrest in Palestine, creating a risky investment environment that discourages foreign investors.

This study has some limitations in conducting it, and some suggestions are proposed to prospective researchers to conduct further studies in the future. First, this study addressed the non-financial companies listed in PEX. Hence, it is impossible to generalize the results to the financial sector in PEX. Thus, future studies can consider the financial sector besides the non-financial sector in Palestine. Second, the study’s sample was relatively small due to the limited number of companies listed on the Palestine Exchange. Hence, future studies can expand the sample size by addressing some or all MENA countries. Third, this study also faced a major limitation due to poor disclosure in the available financial reports. It included the number of AC meetings, the BOD ownership,
family ownership, managerial ownership, audit fees and non-audit fees, the complete CVs of the members of BOD and the members of executive management, and others, which reduced the number of variables necessary for a subject, such as CG.

Future research is expected to develop the quality of public services with other indicators and consider using primary data through a questionnaire survey to measure the quality of public services. The upcoming study can also extend the research period, using a longer lag time variable and other research method, and taking into account some significant variables that may affect the quality of financial reports and the quality of public services, as stated earlier.

This research is also expected to be a valuable resource for government agencies. In addition, BPK is expected to improve the quality of recommendations on audit findings relevant to the priorities of ministries/agencies. The Supreme Auditor also needs to supervise more intensively over audit recommendations supposed to be followed by governmental departments. On the other hand, national governments are expected to improve the effectiveness of the internal control system and compliance with laws and regulations in managing state finances to create more quality and reliable financial information. These institutions are then expected to overcome non-tax revenue irregularities to promote good governance in public service.

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