RES MILITARIS
REVUE EUROPEENNE D ETUDES EUROPEAN JOURNAL OF MILITARY STUDIES
Social Science Journal

Corporate Governance & Earnings persistence: An Empirical Study of Palestine

By

Tumader Thuryya Yasien Alkhalidi
Accounting and Finance, AAUP
Email: Tumaderk75@gmail.com

Abstract

This Research investigates the link between corporate governance and earning persistence of companies listed on the Palestinian exchange (P.E.X.) using a purposive sample method of 18 companies listed in the Palestine Exchange (P.E.X.). The sectors included in the sample are the investment, industrial, and services sectors. While the remaining sectors, the banking, and the insurance sector, are excluded. The data used is collected from annual reports and financial statements. The period covered is years from 2014 to 2019. The results are concluded using the Generalized Method of Moments (G.M.M.). The study results revealed that the company's earnings were persistent during the study period measured by the (β)coefficient. In addition, the panel data analysis of G.M.M. results revealed that good corporate governance practices significantly affected earning persistence. Corporate governance measured by an effective board of directors is crucial for sustainable earnings; corporate governance better influences earning persistence and, more significantly, when all Board attributes work together and interact jointly. This paper makes an essential theoretical contribution by building on prior knowledge as the research result ascertains the influence of corporate governance, measured by an effective board of directors, in increasing earning quality, mainly measured by earning persistence. It also provides empirical proof of the importance of good corporate governance in sustaining earnings which stakeholders and researchers should consider its primary effect in boosting the company's performance. To my knowledge, this study is the first to examine the role board of directors on earnings persistence which will assist policymakers in concentrating their efforts on promoting corporate governance between Palestine firm's.

Keywords: corporate governance- earning persistence- firm value- earning forecast -Palestine

Introduction

To make informed investment decisions, investors, creditors, and shareholders are more concerned with a reliable and consistent tool that accurately forecasts a company's net income and earnings per share. On the other hand, earnings persistence is a vital indicator of a firm's financial strength and value and is crucial for determining the efficiency of a company's operations. Profits influence all facets of a business, such as ensuring a stable financial position and increasing investment opportunities for growth; managers and executives intend to select reporting and accounting measures that reflect reliable and recurring earnings to gain shareholders, investors, and creditors' trust (Hepworth, 1953). Therefore, analysts need to understand the return persistence to forecast earnings and to determine the firm performance more accurately. Optimization and sustainability of earnings are the ultimate goals of any business, which will attract new investors; usually, investors are ready to pay more for a company's stock with effective corporate governance rules. In addition, empirical Research proved that corporate governance mitigates agency problems (P. M. Dechow et al., 1996).

In a study on earning components relating to equity valuation, the evidence established a correlation between valuation factors, earnings persistence, and accounting conservatism (Pope & WANG, 2005). The financial statement remains the most prominent tool to assess the firm's performance. When firms disclose income statement numbers and operational transactions, the financial statements users and investors are interested in the reliability of these numbers and the quality of declared earnings that help forecast earnings, enabling them to determine equity valuation and company’s performance. However, most of the previous Research is about the relevance of accounting information rather than the reliability of reporting to make a good investment decision (Richardson et al., 2005). In turn, a good decision will generate higher returns; higher returns will cause higher stock prices. And achieving these goals needs decision-makers to understand earning persistence. Also, equity valuation models are based on predicting earnings, in which the investor's primary concern is to forecast earnings accurately; therefore, the more earnings persistence, the more earning predictability (Dichev & Tang, 2009; Livnat, 2000).

In a study of the variables influencing earnings stability, aiming to reflect actual business performance and gain investors' confidence accurately, results show that these variables are the firm's size, leverage revenue growth, dividends policy, and accruals which have a positive impact. In contrast, liquidity has an ambiguous effect on earning persistence (Dang & Vu, 2022).

Managers usually use earning management by transferring extraordinary operating profits to other periods to get persistent earnings; as described, earning management is not necessarily illegal. However, the management's goal is to have steady and expected earnings rather than a high income in a certain period and a low income in others (Giacomino & Akers, 2006).

Objectives

This research aims to explore the influence of good corporate governance on earnings quality by employing the Generalized Method of Moments (G.M.M. model) that analyzes the most critical earnings quality factor, earnings persistence. This study is the first to study the persistence of profits of companies listed on PEX.

Despite releasing the Code of Corporate Governance in Palestine in 2009, implementing these rules is still weak; therefore, the study examines the link between corporate governance and earnings persistence. This paper adds to previous studies empirically whether corporate governance mechanism positively affects earning persistence of Palestine-listed companies on PEX; policymakers looking to improve corporate governance mechanism in emerging market economies will benefit from the study's findings.

This paper focuses on board structure characteristics: board size, composition, the proportion of non-executive directors, and CEO duality. Results also offer a new practical contribution by studying the Board of directors on stand-alone bases in isolation from the effects of other governance aspects such as ownership concentration, the impact of committees in charge of nomination and compensation, and the effect on the audit committees.

Literature review

Corporate Governance

To explore the association between earning persistence, we have reviewed the literature, which shows that agency theory is considered a prominent topic in this area. Agency theory suggests that manager and principal conflicting interests will raise a problem that endures the company's additional costs ((Fama, 1980; C. Jensen & Meckling, 1976; M. C. Jensen, 1986). Giving to agency theory, separating the roles of board heads and executive managers will also maintain and best serve the shareholders' rights. A strong independent board of directors monitors managers' actions for the firm's welfare to improve management oversight and result in better management. It also makes sure to prepare a transparent financial statement necessary for decision-making; consequences of low performance, the Board of directors will face the risk of being replaced. Shareholders can solve agency problems by establishing an incentive to motivate the Board of directors to serve in the investors' best interests ((Fatma & Hidayat, 2020).

Corporate governance rules ensure a minimizing agency cost of a firm by defining the responsibilities and duties of each Board of directors. The primary responsibility of the Board of directors is to monitor managers for better performance and ensure that managers work for the benefit of the firm rather than their owns.

According to a study about corporate governance and its relation to earning management, outcomes shown that the existence of audit members, firm size, and board independence as measures of corporate governance do not affect earning persistence and earning management. The study examined 100 companies indexed firms listed in the Indonesian market through the period between 2015-to 2016 (Pernamasari, 2018). Another study finds no strong relation between a company's value and corporate governance rating. ((Gherghina, 2015).

While a study tested the link between earnings persistence and corporate governance of IPO companies, the study uses the accrual component and cash component; when comparing the top and lowest-ranked firms based on earnings, results show that the top quartile businesses had a large positive accrual component in the I.P.O year, by the second year after the(IPO), they have the same negative accrual component as the lowest quartile fir ms the difference in the cash flow component between the top and bottom-ranked firms remains two years after the I.P.O. (Calegari & Maretno, 2005). This finding validates previous Research showing that cash flow variables affect earnings persistence, which isn't the case for the accrual component. In addition, the study discovers that corporate governance (independent Board of directors, executive traits, and ownership concentration) only impacts earnings for top-ranked firms. And this is justified as companies at the top can manage their earnings, but companies at the bottom can't (Calegari & Maretno, 2005). Moreover, research findings suggest that more independent boards improve controlling management actions and decision choices in the interest of investors (Hochberg, 2012).

Research has found strong relationships between earnings persistence and company variables, such as risk, competitiveness, product categories, firm size, and earnings persistence coefficients (Collins & Kothari, 1989). This finding indicates that a company's share price responds more excellently to firms with more persistent profits.

Research results of the relation between earning persistence and earning innovation and stock prices confirmed the positive link between the intensity of the return response to earnings innovations among companies when measuring earnings persistence using a one-variable time-series earnings model. Furthermore, they revealed no indication of a relationship between the share prices' response to unexpected abnormal profits (Kormendi & Lipe, 1987)

The presence of audit committees, as a variable that measures corporate governance, their main task is to make sure that there is a better presentation of financial statements and to control any manipulations or fraud(Agustina et al., 2021). Another corporate governance factor is the ownership concentration and structure that define financial reporting choices. The higher the ownership concentration, the higher monitoring of management decisions, and the less earning management. When managerial ownership is high, discretionary accounting accrual adjustments are much lower (Warfield et al., 1995).

Various studies on corporate governance showed that firms applying corporate governance rules had improved the quality of their financial reports, managerial problem-solving, and the ability to respond quickly to any risk or challenges (Eivazloo and Sadeghi, 2008).

Gompers et al. (2003) seminal work shows that weak corporate governance systems cause poor stock return performance. His study uses twenty-four corporate governance codes to create a corporate governance index. They conducted the study on 1500 US corporations from 1990 to 1999. Also good Corporate Governance will improve the quality of financial statements and maintain earning persistence (Hardiningsih et al., 2019).based on quarter-published data, findings indicated that firms with corporate governance rules have higher earning persistence when testing the effect of corporate governance on Brazilian companies for years from 1995-2011. while firm size is a positively linked to earning persistence (R. Pimentel & Aguiar, 2012).

According to the institute of Internal Auditors America (2021) the companies with high-quality corporate governance have a mix of top management duality and an independent board of director in addition maintain simplified reporting and don't have international processes.

Four indexes that comprehend the quality of corporate governance and as determinants of good governance these indexes have four dimensions: The Board of directors indexes the board committees, an audit committee, and the total index (Khanchel, 2007); a summary of the indexes is in Tables (1,2 and 3) below:

Table 1. *Board of Directors Index*

Variable	Measure
Board size	Number of Board of directors
Outside director	Percentage of directors from outside the company in relevance to total board members.
Meetings of the Board	Board meetings assembly number.
Board duality	Dummy variable was number one when the board member held the same position as the board chair and C.E.O.

Table 2. *Board committees*

Variable	Measure
Presence of a compensation committee	Variables coded 1 if the compensation committee exist, 0 otherwise
Presence of a nominating committee Indicator	Variables coded 1 if the nominating committee exist,0 otherwise
Meetings of the selected committee	Number of meetings of the nominating committee's
The selected committee doesn't include the C.E.O.	Variables coded of 1 if the C.E.O. is not a member of the compensation committee,0 otherwise

Table 3: *Audit Committee*

Variable	Measure
audit committee	Dummy variable of 1 if there is an audit committee.
Audit committee size	number of the committee members
Audit committee meetings	The number of times the audit committee meets.
Members' financial	if the member had financial expertise coded 1, 0, otherwise
The auditor from the Big 4 Indicator	Variable coded 1 if the auditor is one of the Big 4 auditors

Earnings persistence

Firms with sustainable earnings that managers can predict are quality earnings(Asogwa et al., 2020; Penman & Zhang, 2002), and investors are attracted to invest in these companies. Also, using the same accounting principles each year leads to more persistent and better-quality earnings. In addition, Kormendi and Lipe (1987) found that persistent earnings determine the degree of relation between stock returns and earnings. Also, their research showed that the amount of return adjustments to new information positively relates to the measure of earnings persistence across companies.

In an empirical study investigating earning persistence and its impact on valuation techniques in a group of Brazilian firms between 1995 and 2003, results confirm the importance of sustainable earnings in business valuation and analysis of a company's financials. Also, results revealed no evidence of the linkage between earnings persistence and long-term valuation (R. C. Pimentel & De Aguiar, 2016).

According to Gordon (1964), shareholder satisfaction improves with the persistence of a company's profits and growth in its leading indicators, mainly profits and firm performance; therefore, many scholars are interested in the relation between earning persistence and company performance.

Various empirical evidence of the influence of the stability of profit on a company’s value indicates the importance of earning persistence. A study used Philippines firms as a sample; used Tobin's Q as a value measure for Philippines firms; Sahay & Pillai (2009) define

Tobin's Q as a ratio that measures the association between a company's stock price and its asset replacement cost. It can calculate market equity value (market capitalization) is the sum of a company's equity and debt, expressed as a percentage of its total assets, the study results give empirical evidence of the link between earning persistence and firms value .

One factor determining a firm's stock price is the ability of the business to generate income on an ongoing basis, considering that no material events endanger the company's well-being. Also, the change in earnings returns of big corporations is more significant in valuation, implying that earnings persistence is a critical element in measuring firm performance (Alnodel, 2018). When evaluating equity using ratios such as price-to-book value ratio and price-to-earnings ratio, conservative accounting states that when preparing financial statements using accounting standards, greater value multiples are attracted by higher-quality earnings (Pope & WANG, 2005). In addition, research has found that performance measures the short-term firm value using accounting numbers such as ROA and ROE while measuring based on market variables. For example, Tobin's Q predicts the firm's long-term performance (Al-Matari et al.,2014); clearly from the above, the firm's value is directly related to earning persistence.

Earnings persistence relates to the quality of a corporation's profit and capability to keep its earnings over time from normal operation, not due to extraordinary non-recurring activities or events. Earnings stability encompasses diverse earnings, earning trends, and earning predictability (Fatma & Hidayat, 2020).

Study Hypotheses

According to the above literature review, the main hypothesis is:

H1: corporate governance positively affects earning persistence of firms Listed in PEX.

The firm who adbot corporate governance mechanism will have more quality and more persistent earnings, the corporate governances are expressed by Board size, board duality, independent board member and board size.

Conceptual framework

In this Research, the dependent variable is earning persistence, the independent variable is corporate governance, and the study will investigate the effect of corporate governance on earning persistence.

Research Methodology

Research Design, Data and Sampling, and Population description

The Palestine Exchange (PEX.) has members of forty-nine listed companies: eight banks, eight insurance companies, and thirty-three companies from different industry sectors. All of the information utilized in this study was collected by hand from annual financial reports and other disclosures released on the stock market site for the years (2014 to 2019). In addition, corporate governance data is collected from annual report and disclosures. The researcher chooses only listed companies in PEX as it is difficult to obtain data from private non-listed companies. Furthermore, the banks and insurance corporations were excluded as they have non-similar corporate governance regulations and are stricter than regulations used for non-financial firms.

The final sample selection depends on data availability since any company with missing data necessary for the research was eliminated.

1- Also, the following rules must be fulfilled in the sample selection.
2- The company should be enlisted at P.E.X. no later than the year 2010.
3- The firm didn't have losses during the study years from 2014 to 2020.
4- The firm didn't have a stock split during the study years from 2014 to 2020.
5- Financial sector firms are excluded, as according to Fama & French (1992), financial institutions are highly leveraged, which is the normal business for them, which is not the case for non-finance corporations with highly leveraged, which is a sign of probability of default.

The final sample that meets the above criteria is 18 non-financial firms from the whole population of thirty-three non-financial firms covering six years from 2014 to 2019. The firm-year observation is 108 see (Table 6). Years between 2020&2021 were excluded to eliminate the effect of the extraordinary event of the COVID-19 pandemic.

Variables Description

The choice of variables is upon past literature and empirical studies as follows:

Dependent Variable

Dechow (1994) used earnings as a proxy of corporate performance, compared it with net cash flow and cash flow from operations, and found that earnings are more sustainable than cash flows and earnings are more consistent than cash flows. He also found that profits have a stronger relationship and are a good indicator of current stock returns than cash flows. Earning persistence is the capability of earnings to persist for the upcoming years; persistent earnings are also an indicator of earning quality(Hili & Affes, 2012). In measuring earning persistence scaled by total assets, we used the model developed by (P. M. Dechow & Schrand, 2004 ;P. Dechow et al., 2010).

(Operating Income)/(Total assets)it =α_0i+β_it-1 (Operating Income)/(Total Assets)(it-1)+ε_it.(1)

The nearer to one βit (as a measure of persistence), the more persistent the income scaled by total assets is.

Where:

Operating income is = Net income excluding depreciation, interest, and Tax, for the firm i in year t,

Operating income i t-1= Net income before extraordinary items interest, Tax, depreciation, and amortization firm i in year t-1,

$\alpha 0i$ = constant (intercept) coefficient,
βit = (slope) coefficient, and
εit = The residual (error term).

The statistical approach is Multiple regression. While the coefficient β the more is close to 1, the more the earning is sustainable.

Independent Variable

Practical and good corporate governance practices (C.G.) lower agency costs and, therefore, are more favorable to investors to invest in the company. The board of directors' primary responsibilities is to monitor and counsel the management: to monitor that management actions don't conflict with shareholders' interest and to assist management in long-term planning. This paper examines board composition as a proxy measure of C.G. (Alia & Mardawi, 2021; Guluma, 2021; Khanchel, 2007). Empirical Research showed an effect for C.G. on earning persistence. Therefore, an effective Board of directors will enhance the board's abilities to monitor the management and affect the quality of earnings(Hardiningsih et al., 2019; Khuong et al., 2022). The corporate governance characteristics used in this Research are as follows see table (4):

The board size.

An increases in number of board of directors may lead to differing opinions between members, which will slow the implementation of important decisions and may affect the company's profitability. In contrast, with a small size, the board will be easier to communicate and make decisions; numerous studies indicate a negative correlation between board size and earning persistence (Khuong et al., 2022).

CEO duality

Previous Research argued that separating the role of top management and the board of directors can enhance the effectiveness and independence of the board and increase their effectiveness in controlling executive management (Holtz & Sarlo Neto, 2014). In addition, one of the benefits of CEO separation is publishing reports and information timely and transparently to the public (Egbunike & Odum, 2018)

Board independence

previous Research showed that a larger number of independent directors is negatively associated with fraud activities; the presence of an independent board of directors decreases agency costs, and there is a positive correlation between independent board member presence and earning quality (Egbunike & Odum, 2018).

Boards meeting

Frequent meetings between the board and management may improve decision-making, planning, and performance. Also, it may be distracting managers from focusing on essential responsibilities that may harm performance(Egbunike & Odum, 2018; Shivdasani & Zenner, 2004)

Table 4: *corporate governance characters*

Corporate governance structure	Effect on performance	Previous Research
Boards size	Negatively affect earning persistence as smaller boards are more productive & effective, and earning persistence	(JENSEN, 1993) (Yermack, 1996) (Hermalin & Weisbach, 2004)(Khuong et al., 2022)
CEO. duality	Separation of C.E.O. and chairman duties empirical results are mixed for this paper negatively affect Earning persistence	Gillan et al. (2003) (JENSEN, 1993) (Gillan & Starks, 2005) (Yermack, 1996)(Egbunike & Odum, 2018)
Board meeting	Positively affect earning persistence, the higher the board meetings, the more efficient in recovering any discrepancies	(Shivdasani & Zenner, 2004)(Egbunike & Odum, 2018)
independent directors	The Board with a majority of independence has a positive effect on earning persistence	(Fama & Jensen, 1983); (Weisbach, 1988)

Control variables

Firm size

Various studies examine the variables that affect the value of a company; one of these variavles is its size (Alia & Mardawi, 2021; Petchsakulwong & Jansakul, 2018). A large firm indicates that the company is growing well; this sends a positive signal to investors, increasing the firm's worth. Also, large corporate size means that future profits will be higher.

A study result of size on profitability indicated a positive link between the size of the company and achieved profit; this Research used 7,000 listed companys on the stock market from 1987 to 2006 when various firm and industry-specific factors were held constant. The results show that returns of stocks have a negative correlation with leverage, but earnings have a positive correlation with firm size (Acheampong et al., 2014). also, another study result showed that there isn't an effect of firm size on earning persistence (Nurdiniah et al., 2021). another study revealed that company size is correlated negatively with earnings persistence as large size companies are more prone to fluctuation in earnings than small size companies(Khuong et al., 2022).

Leverage:

Leverage is a variable that has a material effect on firm performance (Javed et al., 2012; Lang et al., 1995; Yanti, 2017); debt is the use of borrowed finance, which will bear the firm with a fixed cost, and increase returns for shareholders. Analyst measure leverage by either the ratio of debt to equity or debt to total assets; also, the usage of leverage Increases the firms' earnings per share (EPS) and increase a company's return on investment (R.O.I.) (Assagaf et al., 2019). For this Research, leverage the study uses the following formula as follows. :

Leverage = Total Liability /Total Assets X100%.(2)

Analysts and shareholders tend to look at companies bearing a considerable debt more favorably while the company makes a profit and has sustainable earnings. The empirical Research showed that leverage has a positive effect on earning persistent (Nurdiniah et al., 2021)

The model

The study uses the following formula for hypothesis testing to test the link between corporate governance and earnings persistence:

$$EPRES_{it} = \alpha_{0i} + \beta_1\, EPRES_{\,it-1} + \beta_2(CGOV_{it}) + \beta_3\, EPRES_{it} * (CGOV_{it}) + \beta_{4(}LOG\ SIZE)_i + \beta_5\, Levg + \varepsilon_{it}\ (3)$$

Where:

Table 5: *List of variables and their assumption association*

Measure	Symbol	Description
		Dependent Variable
Earning persistence	EPRES	$\left(\frac{Operating\ income}{Total\ assets}\right)_{it} = \alpha_{0i} + \beta_{it}\left(\frac{Operating\ income}{Total\ Assets}\right)_{it-1} + \varepsilon_{it}$
		Independent directors
Corporate governance	CGOV	Board effectiveness Board size: number of board directors. Board duality: Code one for companies where C.E.O. and Chairman positions are separated and zero otherwise. independent board member (as a ratio of the non-executive), board meetings: number of board meetings.
		Control
Firm size	$LOGAsset$	Natural logarithms of total assets
Leverage	Levg	Total Liability /Total Assets X100%

Research Findings

The companies listed in PEX are distributed in 3 main significant sectors, the total population of firms is 47, and the final sample that complies with the selection conditions is 18. The distribution of sectors is shown in Table (6).

Table (6): *Sample economic Sector Distribution*

Sector	Number of firms	Number of firms/Year
Service	2	12
Manufacturing	13	78
Investment	3	18
Total	18	108

Compared to a static panel data model, a dynamic panel data model includes of the dependent variable as explanatory variables to account for concepts such as momentum and inertia. Consider further more to the aforementioned explanatory variables, a scenario in which consider a case where one lag of the dependent variable is included as an explanatory variable.

Due to the lagged regressor (O.I. it-1 / T.A. it-1), the Generalized Method of Moments (G.M.M.) is used to analyze panel data as first used by Arellano and Bond (1991) due to 4 biased sources: reverse causality missing value temporal correlation error simultaneity(Judson & Owen, 1999), as it does not restrict the distribution of errors, allows for heteroskedasticity of unknown form and estimate the parameters when models unable to be resolved analytically (Livnat, 2000). Conventional procedures, such as the generalized least square method, ordinary least square process, and the fixed-effect model, can create biased estimators.

Results and Discussion

Descriptive data

Descriptive data in table (7) reveal that, on average, businesses perform satisfactorily. This result means a slight discrepancy between what is stated in the financial statements and what occurred. Nevertheless, the company's financials are in fine shape.

Table (7): *Statistics*

Item	Mean	Std. Deviation	N
earning/Assets t	.071917	.04436	108
Board Size	8.71	2.384	108
Independent directors	9.97%	22.69%	108
No board meetings	5.82	1.718	108
Leverage	.3243	.1827	108
Size	7.5657	.68531	108
Duality	.41	.494	108

The correlation matrix reveals that, as expected, a positive link exists with earnings in time t and earnings in time t-1. Also, there is a weak positive link between a company's size. The use of leverage and its earning persistence does not seem to affect a company's success in any noticeable way, see table (8) this is justified as mostly listed firms don't rely heavily on debt.

Table (8) *correlation matrix*

Pearson Correlation	earning/ Assets t	Board Size	independent directors	No of board meetings	Leverage	Total Assets	Duality	earning / Assets t-1
earning/Assets t	1.000	-.048	-.188	.127	.178	.155	.152	.524
Board Size	-.048	1.000	-.170	-.003	.374	.546	-.130	-.002
independent directors	-.188	-.170	1.000	.191	.202	-.362	-.234	-.161
No of board meetings	.127	-.003	.191	1.000	-.068	-.045	.174	.030
Leverage	.178	.374	.202	-.068	1.000	.291	.053	.147
Size	.155	.546	-.362	-.045	.291	1.000	-.076	.142
Separation/board duality	.152	-.130	-.234	.174	.053	-.076	1.000	.088
earning/ Assets t-1	.524	-.002	-.161	.030	.147	.142	.088	1.000

For robustness, a variance inflation factor (V.I.F.) testing was done; the factors examined in this Research were exposed to a multi-collinearity test utilizing a (V.I.F.). These to suggest that the parameters under consideration are not a linear combination of one another and that multicollinearity has a negative impact. Table (9) demonstrates that none of the variables exhibited multicollinearity, heteroscedasticity, or autocorrelation.

Different scholars confirmed that a VIFgreater than ten and a tolerance value approac hing one indicate that there aren't a multicollinearity effects.

Table (9): *multi-collinearity test*

	B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	V.I.F.
(Constant)	.005	.048		.115	.909	-.089	.100					
Board Size	-.004	.002	-.203	-1.966	.052	-.008	.000	-.048	-.193	-.158	.610	1.639
independent directors	.000	.000	-.199	-1.900	.060	-.001	.000	-.188	-.187	-.153	.588	1.699
No of board meetings	.004	.002	.169	1.944	.055	.000	.009	.127	.191	.156	.860	1.163
Leverage	.053	.024	.218	2.183	.031	.005	.101	.178	.213	.176	.647	1.545
Size	.005	.007	.075	.706	.482	-.009	.019	.155	.070	.057	.573	1.744
Board Duality	.000	.008	.005	.050	.960	-.016	.017	.152	.005	.004	.788	1.269
earning/ Assets t-1	.394	.075	.443	5.258	.000	.245	.543	.524	.465	.423	.913	1.096

Dependent variable: earning/Assets t

Model testing results

G.M.M. estimator efficiency and model quality

The validity of the instruments used With G.M.M., robust statistic allows observations to be correlated within groups (Ho): The Instruments are exogenous as there are three conditions for applying Sargan's test. First, the p-value must be greater than 5%. Second, the p-value must not be less than 0.1. Third, the p-value must be greater than 0.25. the null hypothesis of the test implies all instruments are valid P value result is 0.19. This result does not invalidate other results that didn't accept the null hypothesis, and another test is the Arellano and Bond (1991) test, given the first-order correlation of errors see table (10),

The used test of AR1 and AR2 statistical data compute serial correlations of the first and second degree. Therefore, utilizing first-difference transformations, due to the result of the P-value being .0114 below 5%, assume approximately a degree of first-order serial correlation; the more important is (R2) result P-value is 0.5519. Therefore, we should not to accept the null hypothesis of (0) autocorrelation in the first-differenced errors at order two, and we can approve the effectiveness of the first difference G.M.M. estimator and the reliability of the outcomes.

Another test is that the Wald test assumes the excellent of the model with a significance threshold of 5% (P-value = 0.000). We then didn't accept the null hypothesis and accept the model's significance. (See table no 11)

Table (10): *Arellano-Bond Serial Correlation Test*

Test order	m-Statistic	rho	SE(rho)	Prob.
AR(1)	-2.531206	-0.047278	0.018678	0.0114
AR(2)	-0.594897	-0.007580	0.012741	0.5519

Table (11): *Wald Test*

Test Statistic	Value	df	Probability
F-statistic	20.87141	(4, 65)	0.0000
Chi-square	83.48563	4	0.0000

Because the coefficient is significantly positive (G.M.M. β = .518) see table (12), the results indicate a strong earning persistence, and also have a significant negative relation with board size, which is aligned with the theory the smaller the size, the better and more effective Board which affect the presistence of earnings , concerning the number of board meeting had a significant negative effect on earning persistence this may be an indication that the more board meetings are a result of more problems with the firm performance, this may indicate that Board of directors and management had a lot of unresolved matters which will affect companies performance and profitability, number of independent directors has a positive effect but insignificant, this due to that the majority of PEX listed companies boards are not independent and they are mostly a family member due to the highly concentrated family ownership in companies capital, therefore the presence of independent directors is insignificant on earning persistence and performance, in the other hand, leverage significantly affect earning persistence positively aligned with theory, while firm size significantly affects earning persistence negatively (see table 12).

Table (12) *Method: Panel Generalized Method of Moments Transformation: First Differences*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
earning_assets_t(-1)	0.518423	0.149943	3.457468	0.0010
board size	-0.026398	0.002797	-9.439540	0.0000
board duality	0.053093	0.012687	4.184957	0.0001
leverage	0.180708	0.039450	4.580677	0.0000
total assets	-0.905644	0.453782	-1.995769	0.0500
Number board meetings	-0.009899	0.002425	-4.081515	0.0001
independent directors	-0.093690	0.108878	-0.860510	0.3927
Cross-section fixed (first differences)		Effects Specification		
Mean dependent var	-8.46E-05	S.D. dependent var		0.036965
S.E. of regression	0.049040	Sum squared resid		0.156319
J-statistic	12.38523	Instrument rank		16
Prob(J-statistic)	0.192453			

The results of the interaction between earning persistence and each independent variable show a positive and significant coefficient, meaning that all effective Board attributes positively affect earning persistence working together. The valid P value of 0.44 indicated an excellent and robust instrument after adding the interactive term. It shows that corporate governance factors interact more firmly together, and their effect is positive and significant.

For a company to achieve sustainable profits over time, corporate governance is a significant element as it provides oversight of company management through its effective Board of directors.

Better corporate governance means higher-quality profits are more likely to be sustained over time. Corporate stakeholders can develop their next strategy to increase profit as governance regulates profit-maximizing policies.

Table (13) *Method: Panel Generalized Method of Moments Transformation: First Differences*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
earning persistence t *independent directors	0.392380	0.103222	3.801311	0.0003
earning persistence t *board meetings	0.054475	0.007602	7.165547	0.0000
earning persistence t *board size	0.063183	0.005626	11.23038	0.0000
earning persistence t *board duality	0.236355	0.053928	4.382781	0.0000

Discussion

Based on the explanation above, the results show that corporate governance and earnings persistence significantly and positively correlated with non-financial firms listed PEX. These results were consistent with the theory underlying the research that corporate governance mechanisms positively affect earning persistence, and this result may influence the investors' decision-making in investing in those companies.

In efforts of PEX to restructure corporate governance code(ALWatanieh Securities Company, n.d.) That takes sustainability into account it is crucial to pay more attention to motivating companies to apply corporate governance mechanisms in order to encourage investment in PEX. The data show that the board of directors' characters plays an important role in earnings persistence which enable us to infer that our findings provide the groundwork for government and policymaker in setting any rules or instruction to motivate companies to apply and commit to corporate governance mechanisms and make PEX an attractive investment opportunity for foreign investors.

Conclusion

The findings of this study provide empirical evidence that corporate governance significantly impacts earning persistence. As earning persistence is an attribute of earning quality, it assists investors in estimating future earnings, thereby serving as a decision-making tool for investors to make investment decisions. Overall, the study highlights the importance of corporate governance in promoting long-term financial performance and suggests that companies with solid governance systems are more likely to maintain a consistent level of earnings over time.

In Palestine, corporate governance rules are still in the early stages of implementation and formulation. Therefore, policymakers must focus on motivating public and private companies to implement good corporate governance practices. Good corporate governance, measured by an effective board of directors, is essential to the success of any business.

In light of the significance of earnings quality, corporations may employ other governance mechanisms, such as improving board diversity and character, to ensure their earnings are high quality. The presence of corporate governance policies can influence stakeholders' investment decisions in addition to other issues, effective corporate governance practices had a measure role in this decision. Therefore, corporations must enhance corporate governance capacity to improve financial performance, which will attract more investors.

Limitations & further Research

The researcher didn't apply all corporate governance dimensions. Therefore, there is a lot to be explored and other variables to be tested, its relation to earning persistence; this calls for further Research. In addition, studies in parallel inspected the influence of corporate governance on earnings quality using all main earnings quality measures in additionally to earning persistence, such as revenue relevance and earning power. These results imply further Research in the context of the Palestinian market .an important variable that should be considered in future studies is ownership construction because a large percentage of P.E.X. public companies maintain a high ratio of family concentration in shares ownership. The result of this study is limited to investigating the effect of corporate governance on the earnings persistence of companies listed on PEX results may not apply to other markets.:)

References

Acheampong, P., Agalega, E., & Shibu, A. K. (2014). The Effect of Financial Leverage and Market Size on Stock Returns on the Ghana Stock Exchange: Evidence from Selected Stocks in the Manufacturing Sector. International Journal of Financial Research, 5(1), 125–134. https://doi.org/10.5430/ijfr.v5n1p125

Agustina, H., Elfita, R. A., Soelistya, D., Muttaqiin, N., & Mochklas, M. (2021). The role of corporate governance in earnings persistence: Audit committee as a moderation variable. Accounting, 7(7), 1779–1784. https://doi.org/10.5267/j.ac.2021.4.019

Alia, M. J. A., & Mardawi, Z. M. (2021). The impact of ownership structure and board characteristics on corporate social responsibility disclosed by palestinian companies. Jordan Journal of Business Administration, 17(2), 254–277. https://doi.org/10.35516/0338-017-002-006

ALWatanieh Securities Company. (n.d.). PEX: 2022 outcome.

Asogwa, C. I., Ofoegbu, G. N., & Modum, U. (2020). Effect of corporate governance on income persistence and value relevance of quoted Nigerian firms. African J. of Accounting, Auditing and Finance, 7(1), 42. https://doi.org/10.1504/ajaaf.2020.109206

Assagaf, A., Murwaningsari, E., Gunawan, J., & Mayangsari, S. (2019). Factors Affecting the Earning Response Coefficient with Real Activities Earning Management as Moderator: Evidence from Indonesia Stock Exchange. Asian Journal of Economics, Business and Accounting, March 2022, 1–14. https://doi.org/10.9734/ajeba/2019/v11i230124

Calegari, M., & Maretno, H. (2005). The Persistence of Earnings and Corporate Governance in IPO Firms. Journal of Global Business, 16(32), 47.

Collins, D. W., & Kothari, S. P. (1989). An analysis of intertemporal and cross-sectional determinants of earnings response coefficients. Journal of Accounting and Economics, 11(2–3), 143–181. https://doi.org/10.1016/0165-4101(89)90004-9

Dang, H. N., & Vu, V. T. T. (2022). Factors affecting earnings persistence: research in emerging markets. Contaduria y Administracion, 67(1), 214–233. https://doi.org/10.22201/fca.24488410e.2022.3150

Dechow, P., Ge, W., & Schrand, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. Journal of Accounting and Economics, 50(2–3), 344–401. https://doi.org/10.1016/j.jacceco.2010.09.001

Dechow, P. M. (1994). Accounting earnings and cash flows as measures of firm performance The role of accounting accruals Patricia. Journal of Accounting & Economics, 18(2), 3–42. https://doi.org/https://doi.org/10.1016/0165-4101(94)90016-7

Dechow, P. M., Hutton, A. P., & Sloan, R. G. (1996). Economic Consequences of Accounting for Stock-Based Compensation. Journal of Accounting Research, 34, 1.

https://doi.org/10.2307/2491422
Dechow, P. M., & Schrand, C. M. (2004). Earnings Quality. In The Research Foundation of CFA Institute.
Dichev, I. D., & Tang, V. W. (2009). Earnings volatility and earnings predictability. Journal of Accounting and Economics, 47(1–2), 160–181. https://doi.org/10.1016/j.jacceco.2008.09.005
Egbunike, C. F., & Odum, A. N. (2018). Board leadership structure and earnings quality: Evidence from quoted manufacturing firms in Nigeria. Asian Journal of Accounting Research, 3(1), 82–111. https://doi.org/10.1108/AJAR-05-2018-0002
Fama, E. F. (1980). Fama (1980). The Journal of Political Economy, 88(2), 288–307. http://www.jstor.org/stable/1837292
Fama, E. F., & Jensen, M. C. (1983). Separation of Ownership and Control. Journal of Law and Economics, 26(2), 301–325. http://www.jstor.org/stable/725104 Accessed:
Fatma, N., & Hidayat, W. (2020). Earnings persistence , earnings power , and equity valuation in consumer goods firms. 5(1), 3–13. https://doi.org/10.1108/AJAR-05-2019-0041
Gherghina, Ş. C. (2015). Corporate governance ratings and firm value: Empirical evidence from the Bucharest stock exchange. International Journal of Economics and Financial Issues, 5(1), 97–100.
Giacomino, D. E., & Akers, M. (2006). The Ethics Of Managing Short-Term Earnings: Business Managers And Business Students Rate Earnings Management Practices Implications For Academia. Journal of College Teaching and Learning, 3(7), 57–70. https://doi.org/10.19030/tlc.v3i7.1702
Gillan, S. L., & Starks, L. T. (2005). Corporate Governance, Corporate Ownership, and the Role of Institutional Investors: A Global Perspective. In SSRN Electronic Journal. https://doi.org/10.2139/ssrn.439500
Guluma, T. F. (2021). The impact of corporate governance measures on firm performance: the influences of managerial overconfidence. Future Business Journal, 7(1), 1–18. https://doi.org/10.1186/s43093-021-00093-6
Hardiningsih, P., Hadi, T. P., & Ariani, N. (2019). Determinant Earnings Persistence with Corporate Governance as Moderating Factors. 86(Icobame 2018), 78–82. https://doi.org/10.2991/icobame-18.2019.17
Hepworth, S. R. (1953). Smoothing Periodic Income. Accounting Review, 28(1), 32. http://www.lib.lsu.edu/apps/onoffcampus.php?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=7087576&site=ehost-live&scope=site
Hermalin, B. E., & Weisbach, M. S. (2004). Boards of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature. In CFA Digest (Vol. 34, Issue 1). https://doi.org/10.2469/dig.v34.n1.1410
Hili, W., & Affes, P. H. (2012). Corporate Boards Gender Diversity and Earnings Persistence: The Case of French Listed Firms. 12(22).
Hochberg, Y. V. (2012). Venture capital and corporate governance in the newly public firm. In Review of Finance (Vol. 16, Issue 2). https://doi.org/10.1093/rof/rfr035
Holtz, L., & Sarlo Neto, A. (2014). Effects of Board of Directors' Characteristics on the Quality of Accounting Information in Brazil. Revista Contabilidade & Finanças, 25(66), 255–266. https://doi.org/10.1590/1808-057x201412010
Javed, S. M., . A. J., & . S.-R. (2012). A Critical Review of Capital Structure Theories. Information Management and Business Review, 4(11), 553–557. https://doi.org/10.22610/imbr.v4i11.1012
Jensen, C., & Meckling, H. (1976). THEORY OF THE FIRM : MANAGERIAL BEHAVIOR , AGENCY COSTS AND OWNERSHIP STRUCTURE I . Introduction and summary In this paper WC draw on recent progress in the theory of (1) property rights , firm .

In addition to tying together elements of the theory of e. 3, 305–360.
Jensen, M. C. (1986). Agency Cost Of Free Cash Flow, Corporate Finance, and Takeovers. SSRN Electronic Journal, 76(2), 323–329. https://doi.org/10.2139/ssrn.99580
JENSEN, M. C. (1993). The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. The Journal of Finance, 48(3), 831–880. https://doi.org/10.1111/j.1540-6261.1993.tb04022.x
Judson, R. A., & Owen, A. L. (1999). Estimating dynamic panel data models: A guide for macroeconomists. Economics Letters, 65(1), 9–15. https://doi.org/10.1016/s0165-1765(99)00130-5
Khanchel, I. (2007). Corporate governance: Measurement and determinant analysis. Managerial Auditing Journal, 22(8), 740–760. https://doi.org/10.1108/02686900710819625
Khuong, N. V., Abdul Rahman, A. A., Thuan, P. Q., Liem, N. T., Anh, L. H. T., Thuy, C. T. M., & Ly, H. T. N. (2022). Earnings Management, Board Composition and Earnings Persistence in Emerging Market. Sustainability (Switzerland), 14(3), 1–15. https://doi.org/10.3390/su14031061
Kormendi, R., & Lipe, R. (1987). Earnings Innovations, Earnings Persistence, and Stock Returns. The Journal of Business, 60(3), 323. https://doi.org/10.1086/296400
Lang, L., Poulsen, A., & Stulz, R. (1995). Asset sales, firm performance, and the agency costs of managerial discretion. Journal of Financial Economics, 37(1), 3–37. https://doi.org/10.1016/0304-405X(94)00791-X
Livnat, J. (2000). Discussion: "The Ohlson Model: Contribution to Valuation Theory, Limitations, and Empirical Applications." Journal of Accounting, Auditing & Finance, 15(3), 368–370. https://doi.org/10.1177/0148558X0001500312
Nurdiniah, D., Oktapriana, C., Meita, I., & Yanti, M. D. (2021). Impact of Leverage and Firm Size on Earnings Persistence with Managerial Ownership as Moderating Variables. European Journal of Business and Management Research, 6(5), 132–139. https://doi.org/10.24018/ejbmr.2021.6.5.1080
Penman, S. H., & Zhang, X. J. (2002). Accounting conservatism, the quality of earnings, and stock returns. Accounting Review, 77(2), 237–264. https://doi.org/10.2308/accr.2002.77.2.237
Petchsakulwong, P., & Jansakul, N. (2018). Board of directors and profitability ratio of Thai non-life insurers. Kasetsart Journal of Social Sciences, 39(1), 122–128. https://doi.org/10.1016/j.kjss.2017.11.005
Pimentel, R., & Aguiar, A. (2012). Persistence of quarterly earnings: an empirical investigation in Brazil. Brazilian Business Review, sp.ed(1), 38–54. https://doi.org/10.15728/bbrconf.2012.2
Pimentel, R. C., & De Aguiar, A. B. (2016). The role of earnings persistence in valuation accuracy and the time horizon. RAE Revista de Administracao de Empresas, 56(1), 71–86. https://doi.org/10.1590/S0034-759020160107
Pope, P. F., & WANG, P. (2005). Earnings Components , Accounting Bias and Equity Valuation. Review of Accounting Studies, 1995, 387–407. https://doi.org/https://doi.org/10.1007/s11142-005-4207-4
Richardson, S. A., Sloan, R. G., Soliman, M. T., & Tuna, I. (2005). Accrual reliability, earnings persistence and stock prices. Journal of Accounting and Economics, 39(3), 437–485. https://doi.org/10.1016/j.jacceco.2005.04.005
Shivdasani, A., & Zenner, M. (2004). Best Practices in Corporate Governance: What Two Decades of Research Reveals. Journal of Applied Corporate Finance, 16(2–3), 29–41. https://doi.org/10.1111/j.1745-6622.2004.tb00536.x
Weisbach, M. (1988). Outside Directors and CEO Turnover. Journal of Financial Economics,

20, 431–460. https://doi.org/https://doi.org/10.1016/0304-405X(88)90053-0

Yanti, Y. (2017). The Effects of Operating Cash Flow, Sales Volatility, and Leverage on Earnings' Persistence. International Journal of Economic Perspectives, 11(1), 1535–1544. https://search.proquest.com/docview/1964554926?accountid=17242

Yermack, D. (1996). Higher market valuation of companies with a small board of directors. Journal of Financial Economics, 40(2), 185–211. https://doi.org/10.1016/0304-405X(95)00844-5