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

The Impact of Corporate Governance on Performance: Evidence from the Listed Banks on the PEX

By

Khaled Qasim Khaled Hamdan
Accounting and Finance, AAUP
Email: Khalid.zkarni@yahoo.com

Abstract

Corporate governance is how companies are run and who keeps an eye on them. It talks about a wide range of things, such as directors' duties and how investors, directors, and auditors work together. This study aims to figure out if different types of governance positively affect the performance of Palestinian banks from 2015 to 2019. Ideally, this would lead to empirically-based policy suggestions. This study uses descriptive analysis methods to look at the essential parts of the relationship between corporate governance and the performance of selected banks with financial metrics. According to this study, the size of the board of directors significantly affects the return on equity in Palestinian banks. which means that when the board of directors has more members, they have more say over who owns the bank. This is shown by the return on equity, which shows how little power the board of directors has.

Keywords: Corporate Governance – Performance – Palestinian – Banks
JEL Classifications: PEX – CG – TD

1. Introduction

Corporate governance is the combination of law, regulatory, and appropriate voluntary private sector procedures that allow a company to attract financial and human capital, run efficiently, and sustain itself by creating long-term economic value for its investors while upholding the interests of its stakeholders and the public. Ensure that the organization has the appropriate management framework and that long-term strategic goals and objectives are formulated concerning the business's systems, people, and processes.

Corporate governance refers to the management and oversight that corporations are subject to. It discusses a wide range of topics, including the duties of directors and the interactions between investors, directors, and auditors. Corporate governance nowadays relies intensely on agency theory. This is the most popular theory used to describe corporate governance. According to agency theory, which covers the interaction between investors and executives, a conflict of interest between owners and executives may lead to increased agency costs. Contemporary CG principles are in favor of a plan that considers all of the legitimate and appropriate needs, interests, and intentions of its participants before making a choice (Dzingai & Fakoya, 2017)[1].

Theoretically, ideal governance entails a mix of frameworks and strategies that advance the objectives of all parties involved (agency theory) and guarantee that stakeholders' perspectives are considered. That information is presented fairly and impartially (stakeholder theory). Its framework and procedures ensure that all participants work together to accomplish

[1] Dzingai, I., & Fakoya, M. B. (2017). Effect of corporate governance structure on the financial performance of Johannesburg Stock Exchange (JSE)-listed mining firms. *Sustainability*, *9*(6), 867.

the objective (stewardship theory).

This study intends to classify whether various governance methods positively impact the performance of Palestinian Banks for the period 2015 to 2019 to give policy recommendations based on the empirical data.

2. Literature Review

The topic of corporate governance and how it affects business success is frequently debated. The past ten years have seen extensive empirical research demonstrating links between various aspects of CG and business success. Based on the agency theory paradigm put forward proposed by Jensen & Meckling (1976), Fama & Jensen (1983), and Fama (1980), empirical research on corporate governance is conducted. According to agency theory, a better-governed corporation should perform better and be valued higher because of lower agency costs. Many types of research back up this assumption (Azeez, 2015) [2].

This style of ownership discourages investors from addressing managerial difficulties in the firm due to the ineffectiveness of the investors' influence over the business and the significant expenses of control compared to the limited profits they would obtain (Basco, Matinez, Gomez & Boubakri, 2020) [3]. The impact of CG practices on the financial success of listed companies in India and the GCC was demonstrated by Al-ahdal et al. in their 2020 study of a few Indian companies. The study concluded that the audit committee and the board's responsibility had a negligible impact on the performance of the businesses as determined by the return on equity and Tobin's Q ratio. Similarly, TD had little effect on a firm's Tobin's Q score, which measures performance. Additionally, according to the findings of the country dummy, Indian companies did better financially and concerning CG guidelines than their counterparts in the Gulf countries.

Alhroob and Al-Dalaien (2016) used regression analysis to explore corporate governance's impact on a sample of Jordanian banks' financial performance. Regression analysis showed a substantial correlation between CG score and the financial performance of the study's institutions. Furthermore, Saidat et al. (2018) find that the profitability of family firms is negatively correlated with the size of the board as measured by return on assets ROA and Tobin's Q. There was no established connection between nonfamily businesses and corporate success. In nonfamily enterprises, there is a significant correlation between independent directors and company success. The authors also provided evidence that independent directors and performance are related in family businesses. Furthermore, the findings showed that ownership concentration had a negligible link with corporate performance and a strong negative relationship with Tobin's Q in family businesses. The profitability, Tobin's Q, and share returns are all negatively impacted by board size, according to Guest (2009) [4]. Guest (2009) contends that UK boards perform a poor monitoring job; as a result, any effect of a sizable board is likely to reflect advisory board dysfunction. Shortly said, Guest's research backs up the claim that efficient decision-making and effective communication are hampered by big board size.

Since large investors sufficiently monitor administrators, controlling ownership may

[2] Azeez, A. A. (2015). Corporate governance and firm performance: evidence from Sri Lanka. *Journal of Finance*, *3*(1), 180-189.
[3] Martinez-Garcia, I., Basco, R., Gomez-Anson, S., & Boubakri, N. (2020). Ownership concentration in the Gulf cooperation council. *International Journal of Emerging Markets*.
[4] Guest, P. M. (2009). The impact of board size on firm performance: evidence from the UK. *The European Journal of Finance*, *15*(4), 385-404.

lessen disputes between investors and executives (Akben-Selcuk, 2019). However, substantial ownership may exacerbate conflicts between large and small investors since big investors incline to support the company in line with their inclinations (Hegde, Seth & Vishwanatha, 2020). Disputes between controlling and minority investors will be reduced by a competent CG structure. Additionally, it protects financial donors from directors who act following their obligations as well as against desecration and thievery (Huang, 2020) [5].

3. Research Methodology

Research Design, Sample, Subjects, and Time Frame

To accomplish our aims, we conduct a descriptive study of the core elements of the relationship between corporate governance and the performance of selected banks using predetermined financial indicators. A cross-sectional study examines seven banks listed on the PEX stock market between 2015 and 2019. Analyzing financial statements and other disclosures by the sampled Palestinian banks provided the study's raw data. The sample size for the 7 local banks included all Palestinian banks listed on the PEX. Using descriptive statistics, correlation coefficients, simple and multiple regressions, and other statistical methods, it was determined that there was a link between the characteristics of CG and how well Palestinian banks did.

Study Variables

Dependent, independent, and control variables are included in this study. The choice of factors was made after taking into account theoretical and empirical investigations from earlier literature (Christensen et al., 2010; Ehikioya, 2009) [6].

The dependent variable ROE is used to assess the profitability of businesses and the return on shareholders' equity. At the end of the year, it may be calculated by dividing earnings after tax by the entire number of equity shares (Al-ahdal et al., 2020) [7].

The independent variables are as follows:

BSIZ: Many academics dispute the idea that a company's success is influenced by the size of its board of directors. In contrast to the scenario when the board size is modest, businesses would benefit more from having many directors on the board. The larger the board of directors, the more qualified, talented, and prepared members will be, which might lead to more precise decision-making and ultimately better business performance (Yameen, et al., 2019) [8].

BIND: The term "independent board" refers to outside board members who are not connected to the company's senior management (Fama & Jensen, 1983) [9].

BM: This is a formal meeting of the board of directors of an organization and any guests, held at definite intervals and as needed to review performance, consider policy issues,

[5] Hegde, S., Seth, R., & Vishwanatha, S. R. (2020). Ownership concentration and stock returns: Evidence from family firms in India. *Pacific-Basin Finance Journal*, *61*, 101330.
[6] Ehikioya, B. I. (2009). Corporate governance structure and firm performance in developing economies: evidence from Nigeria. *Corporate Governance: The international journal of business in society*, *9*(3), 231-243.
[7] Al-ahdal, W. M., Alsamhi, M. H., Tabash, M. I., & Farhan, N. H. (2020). The impact of corporate governance on the financial performance of Indian and GCC listed firms: An empirical investigation. *Research in International Business and Finance*, *51*, 101083.
[8] Yameen, M., Farhan, N. H., & Tabash, M. I. (2019). The impact of corporate governance practices on firm's performance: An empirical evidence from the Indian tourism sector. Journal of International Studies, 12(1).
[9] Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *The journal of law and Economics*, *26*(2), 301-325.

address significant problems and perform the legal business of the board.

The control variable is the BANKSIZ; Numerous earlier research has used this variable (e.g., Cassar and Holmes, 2003). Whether or not larger companies tend to do better financially was discussed. While due to their size, large organizations are likely to have more chances than smaller ones when it comes to acquiring external funding at a lower cost and improving company value.

Table 1 variables

Dependent variable	
ROE= Return on equity	is determined by dividing a bank's annual profit by its total assets.
Independent variables	
BSIZ = Board size	A total number of members on the board
BIND = Board independence	The number of independent non-executive directors on the board
BM = Board meeting	The board held several meetings during the financial year
Control variables	
BANKSIZ = bank size	The natural log of total assets

Study Hypotheses

The following hypotheses are put out in light of the arguments mentioned above: Main hypothesis: The performance of Palestinian banks is significantly impacted by corporate governance traits.

H1: There is a significant impact of board size on the return on equity of Palestinian Banks.
H2: There is a significant impact of board independence on the return on equity of Palestinian Banks.
H3: There is a significant impact of a board meeting on the return on equity of Palestinian Banks.

Research Statical Model

For the findings to be BLUE (best linear unbiased estimator), several assumptions must be met in the standard linear regression model (BLUE). There is no multicollinearity between the independent variables, which is one of the assumptions. Correlation analysis will be used to test this assumption. The variables should be in a stable state. The unit root test should be used to determine whether or not the data is stationary to select the best appropriate approach for the current sample. If the information is steady, a redundant fixed effects test is used to determine whether or not the fixed effects model is appropriate for study. After applying the redundant limited effects test and choosing the most suitable model, ordinary least square regression is run to find the coefficients of the determinants**.** Afterward, the Granger causality test is applied to find the direction of the relationship between the independent variables and the dependent variable (Gujarati, 2009).

Model Specification

We suggest this regression model ascertain relationships between CG mechanisms and the performance of Palestinian banks based on earlier works by authors like Guest (2009), Jackling and Johl (2009), Alfaraih, Alanezi, and Almujamed (2012).

$$ROE = a + \beta 1\ BSIZE_{¡}t\ + \beta 2\ BIND_{¡}t\ + \beta 3\ BM_{¡}t\ + \beta 4\ BANKSIZ_{¡}t\ + \varepsilon_{¡\cdot}t$$

4. Result and Discussion

Descriptive Analysis

Table 2 demonstrates descriptive statistics for the whole sample of All Palestinian banks registered on the PEX that made up the study population, including the 7 local banks examined. The results show that the mean return values on equity and BSIZ are 10.5544 and 9.4117, respectively. Regarding BIND, BM, and BANKSIZ indicators, findings reveal that the mean values of BIND, BM, and BANKSIZ are 0.2930, 6.8529, and 8.6567, respectively, while the minimum score of each indicator is 0.0909, 5.0000 and 6.6641. BIND, BM, and BANKSIZ's standard divisions are 0.0971, 1.3954, and 1.0402, respectively.

Table 2 below reports the summary statistics of the model variables.

Table 2: descriptive statistics

	ROE	BSIZ	BIND	BM	BANKSIZ
Mean	10.5544	9.4117	0.2930	6.8529	8.6567
Median	11.0500	10.5000	0.2928	6.0000	9.0324
Maximum	17.9000	12.0000	0.4545	10.0000	9.8068
Minimum	2.36000	5.0000	0.0909	5.0000	6.6641
Std. Dev.	4.28580	2.2977	0.0971	1.3954	1.0402
Number observations	34	34	34	34	34

Correlation

According to the Table 3 correlation matrix, there isn't much of a correlation between the independent variables. However, there are contradictory findings: while certain factors have a good association with ROE, some negatively correlate with ROE. "Interestingly," the correlation is negative for board size = 0.66. Board independence, meetings, and Bank Size log positively connect with ROE., which implies that a rise in any of these factors increases with ROE, but variable Board size decreases with ROA. Multicollinearity is the fundamental issue with strongly associated variables in the regression. The VIFs (variance of inflation factors) are estimated in Table 3 to determine whether the present model has a multicollinearity problem.

Table 3: Correlation Matrix and Variance Inflation Factors

Variable	ROE	BIZ	BIND	BM	BANKS	UNCERTENED VIF	
ROE	1.000						
BIZ	-0.6618	1.000				31.5253	31.5253
BIND	0.4854	-0.4829	1.000			14.0153	14.0153
BM	0.5412	-0.4436	0.1709	1.000		32.8005	32.8005
BANKS	0.7880	-0.4676	0.3575	0.2984	1.000	96.9036	96.9036

Note: For all the variables utilized in this study, pair-wise correlation coefficients are shown in the table above.

In the presence of multicollinearity, variance inflation factors (VIFs) investigate how much the variation of projected regression coefficients is inflated compared to the coefficient estimator. Table 3 shows no multicollinearity since all of the mean VIFs for the model's components are below the lowest VIF within each row or the cutoff level of 10 or 5.

Unit Root Test

To check the integration level of the data to determine the best methodological approach to analyze the data, the ADF unit root test was applied to the data. The Augmented Dickey-Fuller Test ensures that unit roots are stationary (ADF). The test assumes that the variable is not static since it has a unit root.

Table 4: Panel Unit Root Test Results

Variables	Model	ADF (Level)	ADF 1st difference
ROE	Intercept	0.0632***	0.000*
	Intercept and Trend	0.168	0.388
	None	0.271	0.000*
BIZ	Intercept	0.182	0.000*
	Intercept and Trend	0.502	0.012**
	None	0.764	0.000*
BIND	Intercept	0.003*	0.000*
	Intercept and Trend	0.020**	0.007*
	None	0.269	0.000*
BM	Intercept	0.267	0.021**
	Intercept and Trend	0.744	0.040**
	None	0.545	0.026**
BANKS	Intercept	0.005*	0.002*
	Intercept and Trend	0.001*	0.127
	None	0.797	0.001*

* and ** denote rejection of the null hypothesis at the 1 percent, 5 percent, and 10 percent levels, respectively.

The findings in Table 4 above show that all variables with initial differences with intercept and none reject the ADF unit root test null hypothesis. In general, the conclusion is that all the variables included in this study are stationary and are integrated into order 1. After reaching this conclusion, one can safely perform a regression analysis without worrying about obtaining erroneous results.

Regession Results

After applying the ordinary least square with the fixed effects model, the results can be seen in Table 5 below. According to R square, the results indicate that variations in the independent variables explain around 79% of the variations in the dependent variable. The model seems to be best fitted as the F- statistics show that the null hypothesis of the model is not best served and is rejected at a 1% significance level. As for the variables, we can see that all the variables are significant except for the board independence variable, which is not adequate even at 10%. When the board size increases by 1%, the ROE decreases by 0.41%. As for board meetings, the coefficient is significant with a value of 0.77 which means that if board meetings increased by 1%, ROE would increase by 0.77 %. The bank size log coefficient is significant with a value of 2.3 which means that if the bank's size log rises by 1%, ROE will increase by 2.3%.

Table 5: Regression Results Under Fixed Effects

Variable	Coefficient	Std. Error	Prob. Value
C	-12.556	5.257	0.0236
Board size	-0.416***	0.207	0.054
Board independence	0.5920	4.352	0.184
Board meeting	0.773**	0.293	0.013
Bank size log	2.309*	0.404	0.000
R Square	0.791		
F-statistics	27.440*		0.000
Durbin Watson	1.398		

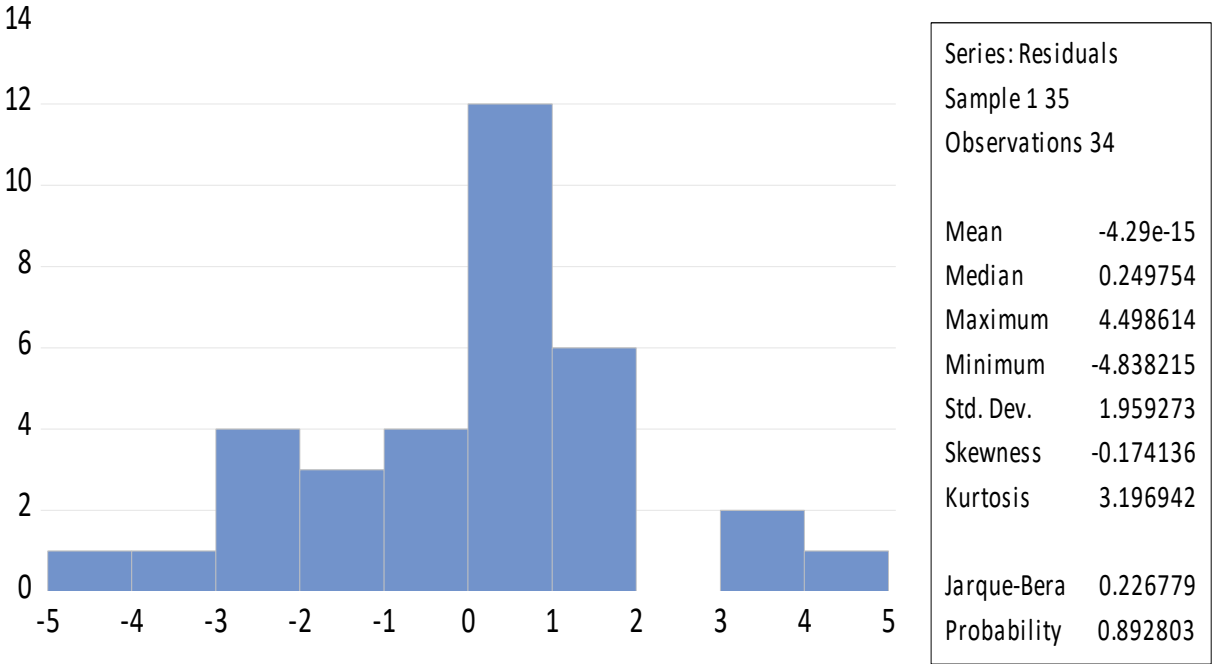
*, ** indicates significance at 1%, 5%, and 10% respectively

Autocorrelation Test

Using the Durbin Watson value, this analysis seeks to determine whether the data have an autocorrelation issue (d). If there is a strong connection between the linear regression and error term, autocorrelation reveals it. There is no autocorrelation issue because the Durbin-Watson statistics value (d) is 1.39, which is close to 1.50.

Normality Test

This study employed the Nonparametric-test using the Kolmogorov Smirnov one-sample to check the data's normality. The regression model's normality test outcomes are shown in the chart below. Even at 10%, the Jarque-Bera prob. value of 0.89 is not significant. The distribution is considered normal according to the test's null hypothesis. Since the null hypothesis is not rejectable, the model may be used to infer the anticipated distribution of residuals.



Heteroscedasticity Test

The variation of the error term is constant is one of the fundamental tenets of the OLS. Heteroscedasticity is a problem when this presumption is violated, and the pooled OLS estimation is no longer the best option. It's crucial to see if the models have any difficulties with heteroscedasticity. The presence of heteroscedasticity is investigated in this study using the Breusch-Pagan/Cook Weisberg test. The null hypothesis in the Breusch and Pagan (1979b) test is that there is no heteroscedasticity or that the variance is constant. The estimated chi-squared statistics and p-values support null and show that the model does not have a

heteroscedasticity problem.

Table 6 Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

F-statistic	0.180318	Prob. F (4,29)	0.9467
Obs*R-squared	0.825109	Prob. Chi-Square (4)	0.9351
Scaled explained SS	0.659384	Prob. Chi-Square (4)	0.9562

Results Discussions

The collaborative law, regulatory, and appropriate procedures from the voluntary private sector are called "corporate governance." It allows a company to attract financial and human capital, run effectively, and sustain itself by creating long-term economic value for its investors while also upholding the interests of stakeholders and the general public. These accomplishments are made possible because a company can create long-term financial value for its investors while protecting stakeholders' interests. It is essential to ensure that the organization possesses a suitable management framework and that long-term strategic goals and objectives are developed regarding the business's systems, people, and processes.

It is evident from the previous findings that the size of the board of directors has a considerable impact on the return on equity in Palestinian banks. This is evident in the board of directors' limited impact on the company, as calculated by the ROE. It follows that a giant board of directors has more say over the ownership of a bank.

Where the board of directors contributes to raising the return to shareholders and seeks to expand bank profits, Saidat et al. (2018) found a negative correlation between the board of directors and ROE. (Saidat et al. (2018)) management and the profitability of enterprises, but at the same time, they agree that independent managers contribute to the company's success. Additionally, (Akben-Selcuk, 2019) argues that controlling ownership may aid in reducing ownership among small and large investors as Hegde, Seth & Vishwanatha, 2020) sees that the independence of the board of directors aids the work of the chairpersons of the board directors to work according to their preferences and aids in reducing disputes between investors, but is harmful to the interests of minority investors.

Conclusion

Given the initial findings, one might conclude that board size and independence influence corporate performance. The corporation must manage the size of the board to be effective. By the King IV proposal that companies include more independent non-executive directors for effective monitoring and transparency, board independence is also essential to the company's operation and profitability. The current study investigated the impact of corporate governance on Performance: Evidence from the Listed Banks on the PEX of Palestinian banks.

The board of directors' independence helps the work of the presiding officers of the board of directors to work according to their preferences and helps to reduce disputes between investors. It is correlated with the return on shareholders' equity in cases where the board of directors contributes to increasing the return to shareholders and seeks to increase bank profits. At the same time, the board of directors contributes to improving the return to shareholders and aims to increase profit in banks.

References

Akben-Selcuk, E. (2019). Corporate social responsibility and financial performance: The moderating role of ownership concentration in Turkey. *Sustainability*, *11*(13), 3643.

Al-ahdal, W. M., Alsamhi, M. H., Tabash, M. I., & Farhan, N. H. (2020). The impact of corporate governance on financial performance of Indian and GCC listed firms: An empirical investigation. *Research in International Business and Finance*, *51*, 101083.

Aldalayeen, B. (2017). Does corporate governance affect the financial performance? Analysis of findings from Jordanian banks. *International Journal of Business and Management*, *12*(4), 123-129.

Alfaraih, M., Alanezi, F., & Almujamed, H. (2012). The influence of institutional and government ownership on firm performance: evidence from Kuwait. *International Business Research*, 5(10), 192.

Alhroob, M. N. A., & Al-Dalaien, B. O. A. (2016). Impact of Corporate Governance on the Financial Performance of Selected Jordanian Banks. *Golden Research Thoughts*, 6(6), 1-10.

Aryani, Y. A., Setiawan, D., & Rahmawati, I. P. (2017). Board meeting and firm performance. In *Proceedings of International Conference on Economics* (Vol. 440).

Azeez, A. A. (2015). Corporate governance and firm performance: evidence from Sri Lanka. *Journal of Finance*, *3*(1), 180-189.

Bayrakdaroğlu, A., & Şan, F. B. (2014). Financial literacy training as a strategic management tool among small-medium sized businesses operating in Turkey. *Procedia-Social and Behavioral Sciences*, *150*, 148-155.

Cassar, G., & Holmes, S. (2003). Capital structure and financing of SMEs: Australian evidence. *Accounting & Finance*, 43(2), 123-147.

Christensen, C. M., Grossman, J. H., & Hwang, J. (2010). The innovator's prescription. A disruptive Solution for.

Dzingai, I., & Fakoya, M. B. (2017). Effect of corporate governance structure on the financial performance of Johannesburg Stock Exchange (JSE)-listed mining firms. *Sustainability*, *9*(6), 867.

Ehikioya, B. I. (2009). Corporate governance structure and firm performance in developing economies: evidence from Nigeria. *Corporate Governance: The international journal of business in society*, *9*(3), 231-243.

Fama, E. F. (1980). Agency problems and the theory of the firm. *Journal of political economy*, 88(2), 288-307.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *The journal of law and Economics*, 26(2), 301-325.

Guest, P. M. (2009). The impact of board size on firm performance: evidence from the UK. *The European Journal of Finance*, *15*(4), 385-404.

Gujarati, D. N. (2009). Basic econometrics. Tata McGraw-Hill Education.

Hegde, S., Seth, R., & Vishwanatha, S. R. (2020). Ownership concentration and stock returns: Evidence from family firms in India. *Pacific-Basin Finance Journal*, *61*, 101330.

Huang, Q. (2020). Ownership concentration and bank profitability in China. *Economics Letters*, 109525.

Jackling, B., & Johl, S. (2009). Board structure and firm performance: Evidence from India's top companies. Corporate Governance: An International Review, 17(4), 492-509.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305-360.

Martinez-Garcia, I., Basco, R., Gomez-Anson, S., & Boubakri, N. (2020). Ownership concentration in the Gulf cooperation council. *International Journal of Emerging*

Markets.

Saidat, Z., Silva, M., & Seaman, C. (2018). The relationship between corporate governance and financial performance: Evidence from Jordanian family and nonfamily firms. *Journal of Family Business Management*.

Yameen, M., Farhan, N. H., & Tabash, M. I. (2019). The impact of corporate governance practices on firm's performance: An empirical evidence from Indian tourism sector. *Journal of International Studies*, 12(1), 208-228.