Faculty of Business and Economics

Master Program of Business Administration

The Influence of Board Effectiveness and Ownership Structure on Capital Structure of Nonfinancial Palestinian Listed Firms in Palestine Exchange

تأثير فعالية المجلس وهيكل الملكية على هيكل رأس المال للشركات غير المالية الفلسطينية المدرجة في بورصة فلسطين

Prepared By

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This Thesis was submitted in Partial Fulfillment of the Requirements for the Degree of Master in Business Administration, from the Faculty Business and Economics at Birzeit University, Palestine

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Abstract

Managing the company's structure is an important area in corporate finance in most economies of the world including Palestine. despite their importance, a studies that investigated the determinants of capital structure are mostly focused on the traditional determinants such as size and growth. As for the consideration of the impact of the basic factors that constitute corporate governance on the capital structure, it is limited to the minimum of them.

The study aims to inspect the relationship between corporate governance mechanisms (Board size, meetings, duality, audit committee, foreign ownership, Institution ownership, size, auditors and profitability) and the Capital structure formation of Nonfinancial listed firms in Palestine. The study used regression technique to achieve the objective of the study, using a sample of 27 non-financial Palestinian listed firms in PEX during the period 2011-2017.

The experimental findings generally exhibit some significant associations between TDR and Audit Committee and Firm Size with positive sign but significant negative associations with Meetings, Institution ownership and Profitability. The results also present statistically significant positive associations between LTDR and Firm Size but significant negative associations with board size. Moreover, there is statistically significant positive relationship between STDR and board size, and significant negative associations with board meetings, institutional ownership and Profitability. Thus, the study recommends taking the determinants of the capital structure into consideration when setting financial policies and making financial decisions to achieve the highest level of the company's goals.

Abstract (Arabic)

ملخص الدراسة

تعد إدارة هيكل الشركة مجالًا هامًا في تمويل الشركات في معظم اقتصادات العالم بما في ذلك فلسطين. وعلى الرغم من أهميتها، تركز الدراسات التي حققت في محددات هيكل رأس المال في الغالب على المحددات التقليدية مثل الحجم والنمو. اما النظر في تأثير العوامل الأساسية التي تشكل حوكمة الشركات على هيكل رأس المال يقتصر على الحد الأدنى منها.

تهدف الدراسة إلى فحص العلاقة بين آليات حوكمة الشركات (حجم المجلس والاجتماعات والازدواجية ولجنة المراجعة والملكية الأجنبية وملكية المؤسسات وحجم الشركة و المدققين والربحية) وتكوين هيكل رأس المال للشركات غير المالية المدرجة في فلسطين. استخدمت الدراسة تقنية الانحدار لتحقيق هدف الدراسة، باستخدام عينة من 27 شركة فلسطينية غير مالية مدرجة في بورصة فلسطين خلال الفترة 2011-2017..

تظهر النتائج التجريبية بشكل عام علاقة ايجابية ذات دلالة إحصائية بين إجمالي نسبة الدين ولجنة التدقيق وحجم الشركة ولكنها ذات دلالة إحصائية سلبية مع اجتماعات مجلس الادارة والاستثمار المؤسسي والربحية. تظهر النتائج أيضًا علاقة إيجابية ذات دلالة إحصائية بين نسبة الديون طويلة الأجل وحجم الشركة ولكنها علاقة سلبية ذات دلالة إحصائية مع حجم مجلس الادارة. علاوة على ذلك، تظهر النتائج علاقة إيجابية ذات دلالة إحصائية بين نسبة الديون قصيرة الأجل وحجم المجلس، ولكن هناك علاقة سلبية ذات دلالة إحصائية مع اجتماعات المجلس والاستثمار المؤسسي والربحية.

وبذلك فان الرسالة توصي بأخذ محددات هيكل رأس المال بعين الاعتبار عند وضع السياسات المالية واتخاذ القرارات المالية لتحقيق أعلى قدر من اهداف الشركة.

Dedication

To my dear father and my kind mother.

To my beloved husband and my beloved brothers.

To my generous family.

To my honorable university.

To my friends.

To my lovely country Palestine.

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Praise be to Allah, lord of the worlds, and prayers and peace on the prophet Mohammed peace be upon him.

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I thank my lovely family, for their confidence in me and their continuous prayer for me. I thank my parents who taught me how to work hard in order to achieve goals even when they went beyond boundaries. I thank my brothers Mohammad, Baseem and Feras who were always there when I asked for help.

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I thank my friends for their supporting, stimulating discussions, for the sleepless nights we were working together before deadlines, and for all the fun we have had in the year.

I also place on record, my sense of gratitude to one and all, who directly or indirectly, have let their hand in this thesis.

Thanks,

Haneen Khaled Masalma

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List of Abbreviations

BV: Book Value

CEO: Chief Executive Officer

MV: Market Value

PCMA: Palestine Capital Market Authority

PEX: Palestine Exchange

ROA: Return on Assets

Chapter One

Study Background

1.1 Introduction

Corporate structure management is important area in corporate finance. Capital structure return to the various options that the firm has chosen to finance its assets through some combination of equity and debt. Studies on firm's capital structure returns to the primary proposition of Modigliani and Miller (1958). The perfect market assumption was the basis on which a Modigliani and Miller (1958) theory was built. Internal capital (equity) provides a perfect substitute for external fund (debt). However, in the imperfect capital markets, companies have to choose the more suitable capital structure and financing decision. As the overall objective of the firm is to maximize shareholder wealth, one of the main objectives of managing the capital structure is to limit the cost of capital, and thus, maximize shareholder wealth.

Although the motivations and determinants of capital structure have been extensively studied by prior literature in developed countries and some emerging economies, there is a lack of consensus on the theory underlying managers' decisions.

The present study attempts to address the importance of code of corporate governance mechanisms and ownership structure in helping to understand the capital structure choice of non-financial Palestinian listed firms.

This study was arranged and presented as follows: First of all, study present the study problem, importance, objectives and variables. Subsequent chapter provides a brief overview of the Palestine Exchange, Palestine Capital Market Authority (PCMA), Capital Structure Definitions, Theories of the Code of Corporate

Governance and a revision of the literature on the on Capital Structure with hypotheses development. The study methodology used in the study is discussed in chapter 3. Data analysis and test the hypothesis are discussed in chapter 4, and the last chapter of the study provide a conclusion and recommendation.

1.2 Research Problem

Although a few studies have investigated the determinants of capital structure in the Palestinian situation, they are mostly focused on the traditional determinants such as size and growth. The relations between corporate governance mechanisms and capital structure is still unclear. Among the important governance mechanisms, board of directors and ownership structure are crucial. Since the issuance of code of corporate governance by Palestinian Capital Market Authority (PCMA) in November 2009, the current study will be the study that explores the effect of this code on the corporate structure. Therefore, this study attempts to bridge the research gap through examining the impact of two main governance mechanisms (board of directors and ownership structure) on the decisions of non-financial listed firms. The findings of this study are expected to be very helpful for policy makers and the Palestinian Capital Market Authority (PCMA) by clarifying the status and restrictions of the current corporate governance code. As a result, the following two **research questions** are formulated:

1. To what extent could board of directors influence capital structure choice of non-financial Palestinian listed firms?

2. To what extent could ownership structure influence capital structure choice of non-financial Palestinian listed firms?

And the following **hypotheses** were used to answer the study questions:

* H1: There is a significant negative relationship between the board of directors' size and capital structure.
* H2: There is a significant positive relationship between the number of the board's meetings held every year and capital structure.
* H3: There is a significant positive relationship between the duality of Board members and capital structure.
* H4: There is a significant positive relationship between the existence of an audit committee and capital structure.
* H5: There is a significant positive relationship between the foreign ownership and capital structure.
* H6: There is a significant negative relationship between the institutional ownership and capital structure.

1.3 The Study Importance

The study aims to investigate the association between corporate governance mechanism and the capital structure components and financial decisions of non-listed firms in Palestine Exchange. Examining the firm's capital structure is important because of its impact on the company's real decisions regarding employment and production, investment decisions, and future expansion (Harris & Raviv, 1991). It also affects the policies followed in the company. In a systematic

way, study determines and inspects the capital structure's determinants. The study offers practical education for who want to realize the subject. It also helps managers and decision makers in Palestinian companies to take the appropriate decision in financing their companies. Companies are advised to maintain certain qualities in order to preserve a better position throughout their lives to maintain access to debt and benefit from leverage at the time of need. Creditors can also improve their risk assessment when dealing with companies according to their characteristics. In general, this study may be used and utilized to achieve maximum profits, and it may also be useful for non-profit companies. It is also important for researchers to do other studies for those interested in capital structure subject. In addition to the necessity to consider the capital and the factors affecting it when setting corporate governance's codes and modifying it to suit the company's goals.

The current study differs from its predecessors in the following fundamental differences:

The current study used industries, investing and services from PEX sectors and exclude banking and insurance sectors for their different nature. Previous studies were carried out on the Palestine Exchange, covering the period from 2000 to 2004 in Abu Muammar's study (2011) and the period from 2009 to 2014 in Taleb's study (2015), while this study was implemented in the period of (2011-2017). Abu Mouamer's use a sample of 15 firms, representing 51% of firm in PEX and Taleb (2015) use a sample of 35 firms, representing 71% of firm in PEX from various sectors. While the sample of this study consist of 27 non-financial companies listed in PEX which represent 79%.

Several variables and financial ratios were employed and examined in the current study such as: Board size, Board meetings, Duality (CEO / Chair Duality), Audit committee, Institutional ownership, Foreign Ownership. This differs from what other studies have taken as factors for instance: (Size, Age, Growth, Risk, Tangibility, Profitability, and Liquidity), all or some of them.

1.4 The Study Objectives

- To explore the influence of board of directors' characteristics on the capital structure decisions of Palestinian listed firms.
- To investigate the influence of ownership structure on capital structure decisions of non-financial Palestinian listed firms.

1.5 Study Variables

Based on the capital structure determinants of the mentioned in the previous literature and the results of previous studies, the variables of this study were determined and adopted as possible determinants of corporate finance decisions. And it is as follows:

Dependent variable:

It is expressed using three agents of ***leverage***:

1. Total debt
2. Long-term debt
3. Short-term debt

Independent Variables:

Board Characteristics:

4. Board size
5. Board meetings
6. Duality (CEO / Chair Duality)
7. Audit committee

Ownership Characteristics:

1. Institutional ownership
2. Foreign concentration

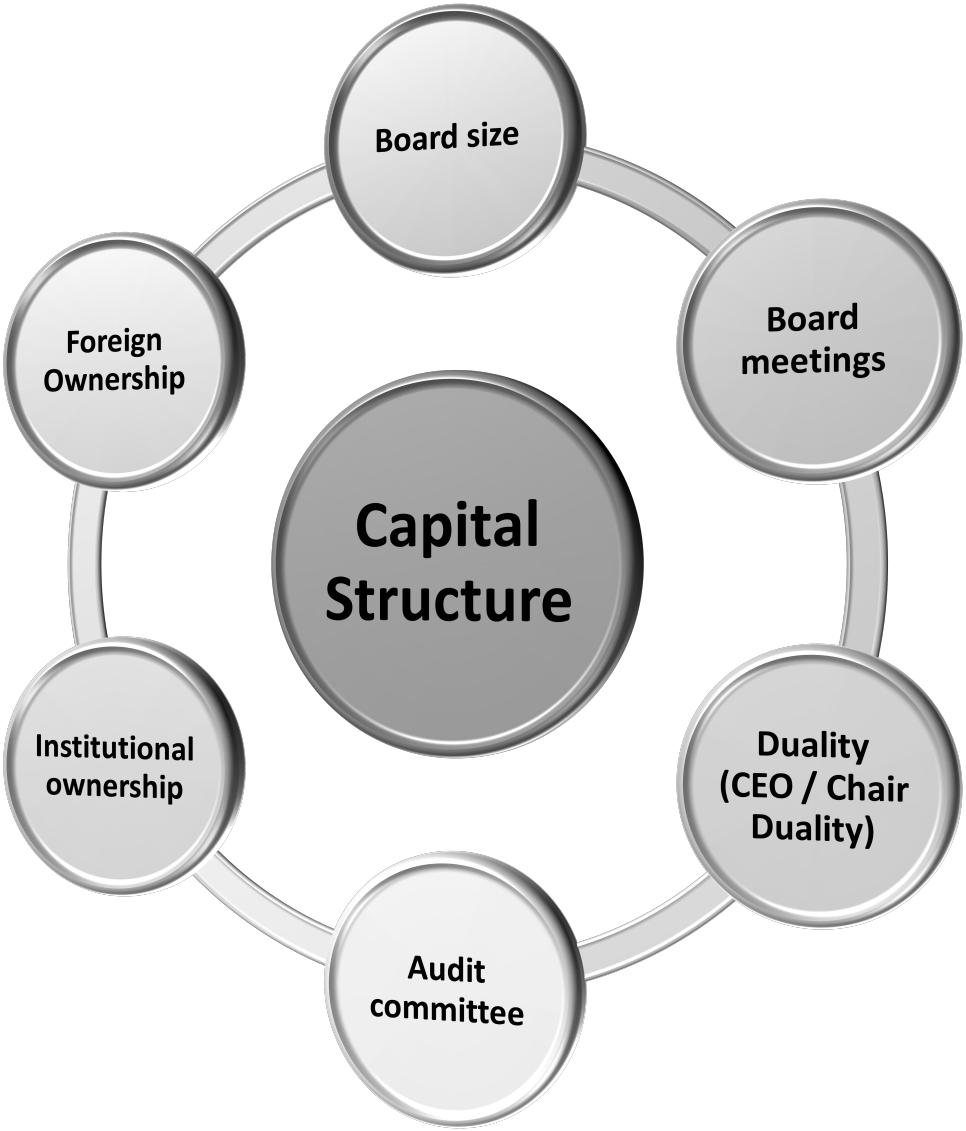

Figure 1. Variables

Chapter Two

Literature Review

2.1 Introduction

Capital structure is one of highly discussed subject in financial management path. It's interesting originates from the reality that capital constitution is greatly attributed to the companies` aptitude to accomplish the different stakeholders' wants and requirements. The decision of the capital structure is essential for any economic entity. The financing decision is crucial as its need to maximize organization`s profitability and as it has great impact on firm`s competitiveness because of the liberalization in the developing countries, a number of economic sectors have become careful concerning the best corporate capital combination that is recognized as the optimal (best) capital structure. Modigliani and Miller (1958) are the pioneer researchers who investigated and theorized the capital structure determinants and they concluded the notion of capital structure where financial leverage does not influence the market value of the company.

There are several independent variables affect capital; constitution of the businesses that include a group of board of directors and ownership structure mechanisms namely, board size (BSIZE), board meetings (BMET), Duality (CD), existence of audit committee (ACOM), foreign concentration (FORGN) and institutional ownership (INST). Aside from using the independent variables, the study model incorporates a set of control variables that were founded by prior literature to be related to corporate governance and earnings management. All of these variables are discussed below within three main categories.

The researcher in this study recognizes the establishment and development of the Palestine Exchange. Then, the researcher explores the creation of the Palestine

Capital Market Authority (PCMA) and its duties and responsibilities. The next section discusses the reality of the corporate governance with a special focus on Palestinian case. Furthermore, the researcher defines the corporate capital structure and explain the major theories of the governance: agency cost, the pecking order, stakeholder, stewardship, resource dependency, Modigliani and miller and trade-off theory. The other section of the study discusses and explore previous related studies and hypotheses development. As the dependent variables are short-term debt, long-term, and total debt. The independent variables includes: board effectiveness measurements (board size, board meetings, duality (CEO / chair duality), audit committee) and ownership Combination that include: institutional and foreign ownership. Eventually, the control variables that include: firm`s size, big four auditors and firm's profitability.

2.2 Palestine Exchange

Palestine Exchange operations are very important for success of the Palestinian economic growth and development. It was established in mid of 1990s in Nablus as a private shareholding company with a total capital of JD2 million when it was conducted trading activities with (8) listed corporations and this number increased to (48) corporations at the end of (2019). Table 1 describes the companies in Palestine by sectors. The major and essential objective of the PEX is to enhance investment process in Palestinian economy. In 1996, the PEX signed an agreement with Palestine National Authority that licenses the company for the licensing and qualification of brokerage institutions to establish. On 18/2/1997, the PEX made its first exchange session (www.pex.ps).

Table 1. Description of the companies in Palestine (Sectors) in 2019.

Description of the companies in Palestine in 2019 (Sectors)		
	Sector	**Number of companies**
Non-Financial Companies (Study Population)	Investment	10
	Service	11
	Industry	13
Financial Companies	Banking and Financial Services	7
	Insurance	7
	Totals	**48**

The PEX relies on E. trading and clearing, depository, and settlement systems. This means that, the PEX is the innovative and pioneering securities market in the Middle East and North Africa area that approved automation of all its operations. Nowadays, the PEX adopts a trading system of OMX. Besides, the PEX adopts the SMARTS system as a surveillance system. The exchange is conducted every day from Sunday until Thursday weekly; but on weekends, official holidays, and the last working day at the end of the fiscal year trading is not conducted. Moreover, scheduling trading session is to be called off if the ratio of the member institutions technically unable to connect and to trade are (35%) or more of the total number of member firms. Eventually, exchanging session conducts at 09:45 and ends at 13:30. The PEX is one of the pioneering Arab capital markets that adopt fully automated trading. In February 2010, it was transformed to public shareholding company to

become the trade name "Palestine Exchange" and its slogan "Palestine of Opportunities" in order to promote and adherence to transparency and good corporate governance standards and requirements. The Palestinian capital market authority is the official organization that controls and supervises the PEX. The PEX works hardly to create a supportive climate for exchanging that is distinguished by equity, limpidity and high specialization, offering a trading service and protecting shareholders and investors' rights and interests. The PEX strives hardly to appeal in terms of market capitalization; it is financially sound, and well capitalized to preserve a constant business in instable political and economic environment. Besides, the PEX was not influenced by the global financial crisis that took place in the previous decade.

There are five major economic sectors in PEX that are banking and financial, insurance, industry, investment and services. The largest percentage of the listed companies' trade in Jordan dinar and some of them are traded in USA dollar. Nowadays only stocks are traded in the market and there is a potential for trading other financial instruments such as bonds.

The vision of the PEX is "We seek to be a model for Arab and regional financial; markets, through providing innovative services, proposing ideal investment opportunities in securities, attracting investments, the use of state of the art technology, compliance to the rules of corporate governance and establishing constructive relations with Arab, regional and global markets". The PEX mission is "To provide a fair, transparent and efficient market for trading securities that serves investors, protects their interests, contributes to creating an enabling

environment that attracts local and foreign investments, and interacts with local and Arab relevant institutions in a manner that serves the national and enhances the culture of investment in financial markets".

The PEX strives hardly to achieve a set of goals and objectives that we can summarize them in the following: To establish a safe and supporting exchange ambience distinguished by effectiveness, fairness and limpidity. Besides, to develop and promote the investment culture and recognition of the local society and support PEX relevancies with Palestinian, regional, Arab and international economic organizations and institutions and forums. Likewise, to establish a local investment attracts Palestinian diaspora and foreign investments. Besides, it aims to enhance and develop the depth of the trade by constant listing innovative and new corporations and offering new and different financial instruments and services. Furthermore, to establish a proficient working climate within PEX by investing in intellectual capital and acquire an innovative technologies of stock markets.

The legitimate structure of the securities sector was developed efficiently in 2005 by virtue of the issuance of the securities Law Number (12) of 2004 and the issuance of the Capital Market Authority Law Number (13) of 2004, the PCMA is the official organization that is responsible for monitoring and supervising the Palestine Exchange and issuing securities by the Corporations.

The PEX runs in compliance with recent regulations and standards that form an efficient basis to guarantee a fair exchanging ambience. These regulations comprise: listing, exchanging, disclosure, membership, dispute resolution regulations and the regulations of professional conduct (Abu Nada, 2013, 33).

2.3 Palestine Capital Market Authority (PCMA)

Abbreviated (PCMA) is considered an independent National organization in Palestine that was established in 2005 in accordance with PCMA law No. (13), which it was issued in 2004 in order to promote and create an efficient environment for investors and to organize, develop, supervise and control the Palestine Exchange and to protect and maintain the interest of the shareholders` in Palestinian economic and financial environment. Thus, the PCMA was established by PNA in February 2005 to be the sole legal institution that is responsible of controlling, monitoring and supervising the exchange activities at the PEX as well as the conduct of the listed corporations and the brokerage member institutions (www.pcma.ps).

The Capital Market Authority Law is a regulatory law that defines and reinforces the concept of separating the supervisory role of the securities sector from the managerial role. The law empowers the Capital Market Authority with a set of tasks and regulations on which the Authority exercises its controlling and supervisory role. And the supervision of the Capital Market Authority includes the supervision of the securities sector, insurance sector, financial leasing sector, mortgage sector, and the non-bank sector.

The PCMA is an organization that has a financial and administrative autonomy as well as the legal aptitude to commence all businesses and actions that ensure the achievement of its goals and objectives comprising the attainment of moveable and immoveable property important to exercise of its responsibilities and duties and the exercise and attitude of its activities in compliance with the law`s provisions.

The Palestine CMA, within a short period of time after its foundation, has been the aptitude to achieve high success and great achievements in the sectors it monitors and supervise. Therefore, supervising, monitoring and granting permission for all activities attributing to the Securities sector, for instance initial or secondary public offering, insertion, capital increase, etc. It has also scored high progress and development in the managing and reforming of the insurance sector that faced a number of problems and challenges throughout the last few years. Nowadays, the Authority is striving hardly to complete the legal and administrative environment that controls and oversees the sectors of mortgage, finance hiring, and non-bank financial activity. Besides, it has made great endeavors in communicating and coordinating its tasks, programs and planning with all organizations and institutions of the concerned parties, locally and internationally, benefiting from the expertises of successful countries in these fields. Furthermore, it coordinates and cooperates with all interested organizations for instance the Palestine Securities Exchange, the Palestinian Monetary Authority, the Companies` Controller and the Insurance Companies` Federation in order to enable the Palestine Capital Market Authority to accomplish its objectives.

The Capital Market Authority Law No. “13” at 2004 stated that the Palestine CMA should consist of these particular series: Palestine Exchange and the Centre of Depository and settlement, Public-shareholding companies, Securities companies’ members of the Palestine Exchange, Financial professionals and Investment funds. In 2017, PCMA approved the adoption and execution of the electronic initial public offering system that which was at first conducted through the IPO of Sanad Co. The

e. IPO system has created a value added to the electronic subscription processes, mainly Palestine Capital Market Authority's initiative to adopt the investor's number in the underwriting. Besides, the PCMA strived hardly to develop the disclosure process as the institution developed the "IFSAH" system that is a non-financial disclosure electronic system was put in operation in 2017 to give the organization the opportunity to disclose non-financial information electronically and to be directly uploaded to PEX website. Besides, according to the antimony laundering practices and terrorism financing the CMA developed new rules for opening new account that is called KYC.

2.4 Special Focus on Corporate Governance in the Palestinian Case

Organization for Economic Co-operation and Development (2003) identified corporate governance as "A method or tool that is controlled and supervised through the corporation". Thus, it is an instrument for allocating a hierarchy of authority and duties, and a method to protect the different stakeholder's rights in organizations that would decrease the rigorousness of strugle of interest, attracts investments of various types, whether solo or institutional (Brown & Caylor, 2006) and influence the levels of disclosure and quality of companies and the nature of the policy attributed to corporate governance (OECD, 2004)

Fung (2014) stated that the purpose of the corporate governance is to decrease immoral corporate pursuits and maintain an unbiased business environment. Besides, he added that inappropriate corporate governance is perceived and

considered risky. While, stakeholders perceive efficient corporate governance as an indication of a strong organization and business. The focus has increased significantly on corporate governance due to the numerous corporate scandals and failures in different countries in the world (Okpala, 2012).

The power of corporate governance tools and increasing the quality of disclosure are becoming essential as stakeholders focus more on what and how to report (Bushman & Smith, 2003). The major goal of financial reporting is to provide high-quality financial information attributing to a specific organization. Financial disclosure is important for making economic and investment decisions. Besides, CG is essential for increasing the transparency of the financial information concerning the business (Htay, Said, & Salman, 2013). So that, investors seek more transparent financial reports and for the company to be transparent as increasing the efficiency of corporate governance practices reduces the risks and uncertainties of investors and stakeholders towards the company's investment decisions (Beest, Braam, Boelens, 2009).

The corporate governance is an important tool for separating ownership from the business management and administration that leads to emergence of the agency theory. The emergence and development of the corporate governance standards and principles was a result of the financial crises and financial scandals that hit large international organizations everywhere especially in developed countries throughout the last few years that created a necessity for the development and adoption of principles and standards that promote ethical practices in organizations and inspire the trustworthiness and creditability of the disclosed data and financial

information that affects positively the efficiency of the financial markets and increasing the investment process in the country (Tornyeva & Wereko 2012).

According to Ballesta and Meca, (2007), corporate governance provides the motivations to the board of directors to accomplish the organization`s objectives, and increase the efficiency of the control and supervising measures that play an essential role in fighting manipulation and misrepresentation of information and fraud. That would play an essential role in protecting the different stakeholder's rights and interests.

According to Brown et. Al. (2010) improving and developing the legal and legislative framework of the corporate governance of the organization can play an essential role in achieving the economic development in the country since the efficient corporate governance influences business strategic decisions, and lead accountants, support and promote the external auditors independency, enhance the performance of the organization and support the investment decision-making mechanism by interested stakeholders and investors by supporting and inspiring confidence in the financial reports and show it through the internal information that would accomplish the best manipulation of economic resources. It also helps governments in policy-making in the future to maintain and accomplish social welfare and economic development (Fan and Wong, 2002),

Abou-El-Sood, (2005) stated that governance code increases the quality of the external audit efficiency and increasing internal auditors' commitment to the internal audit standards especially that are related to ethical practices in the organization that positively affects the quality of the professional performance of

the internal audit and enhances its procedure and mods used. Besides, Shawwa, (2007) claimed that "good corporate governance" is important mechanism in increasing the efficiency of risk management in organizations through promoting the efficiency of the internal control system in the organization and protecting the rights and interests of investors and shareholders in the organization through preserving the economic entity resource. Likewise, Hamdan & Jaber, (2013) stated that corporate governance stimulates increased quality of decision making and increasing the performance of the organization.

Chung et al. (2011) stated that efficient adoption and enforcement of corporate governance principles and standards develop the liquidity of the corporation and it increases the companies` sales turnover rates as it supports them in the event of a future emergency that the organization may encounter and its financial requirements. Likewise, Kang & Kim (2012) argued that well-organized corporate governance system increases firm`s profitability and performance.

According to Palestinian context, the Palestine Capital market authority coordinates and cooperates with Palestine Monetary Authority, and the International Finance Corporation to establish code of corporate governance in Palestine, on the basis of the establishment of the National Committee for Corporate Governance in Palestine that included members from many of interested parties and organizations such as financial authority, the economists, regulators, organizers and academicians. The committee made a decision to establish a technical team to work on preparing the code of corporate governance in compliance with the principles and work plan

established by the committee (http://www.hawkama.ps/Pages/Comp_Gov_Page.aspx).

Corporate governance defines as “A system under which organizations are controlled and supervised, and so that there are several relationships between the executive management of the business and the corporation`s board of directors and shareholders”. Likewise, the Palestine Financial Market interpret corporate governance as “The rules and procedures under which the firm`s management controlled, by regulating the relations between the board of directors, and executive management, and shareholders, and other stakeholders, as well as social and environmental responsibility of the company”. (Dwekat and others, 2018)

So that, corporate governance is interested in the way in which the firm's management works and controlled, and in investigating capacity of the board of directors to set and establish clear policies and procedures to protect the interest of investors and shareholders. Besides, developing the board of directors’ practices, and increase corporate performance and increase companies` competitiveness, to increase the firm`s wealth and value, and enhance other stakeholder’s confidence in the business. Besides, the corporate governance is important in Palestinian environment to improve the investment environment, and enhancing the performance of the financial market, increasing the countries` competitiveness, and supporting the ability of the country to face the dangers and hazards (Darwish and Ghanem, 2017).

The corporate governance in Palestine includes several rules based on the Palestinian laws and restrictions, and so that firms are committed to apply

responsibility. The corporate governance code in Palestine was established in 2009, this code consists mainly of three types of rules as follows:

1. **Type I: "rules based on explicit legislative texts"** that execution by the corporations will be matter to legitimate liability and it under punishment of social responsibility. The code used some sentences in these texts such as "must, and may not be, and are entitled, and committed to, and is prohibited".
2. **Type II: the rules are according to international practices in the corporate governance field,** these rules have no disagreement with the explicit legislative text or at least be one of the possibilities permitted by any legislative text, in this occasion the use will be voluntary by the firms according to the quotation "Commitment and noncompliance", as firms ought to interpret why they are committed, whereas in the situation on non-compliance, they ought to explain too, in the contrary in this situation the execution is a voluntary Obligation. "These rules have been drafted in the code stating permissible advice, using terminology such as: Favored, or recommended and may allowed".
3. **Type III: It is the rules that are consistent with international practices in the field of corporate governance,** but it is conflicting with the explicit legislative texts in Palestine, in this situation a commendation honestly requisite to be modified to make local legislation to be appropriate to these pursuits and rules outside Palestine. Noticing that the Capital Market Authority lately established e-governance website, after it was developed and well-constructed to establish a channel of communication and an important essential source of

information attributed to corporate governance in Palestine (www.hawkama.ps).

2.5 Capital Structure Definitions

According to Akingunola, Olawale, & Olaniyan, (2018), the percentage of debt and equity in the financial combination of a business as the appropriate selection of capital combination is important decision for any business to increase its performance more efficiently and confirms the consistency of activities to accomplish its desired and planned objectives (Hossain & Hossain, 2015). Furthermore, capital constitution increases shareholder's value and, allocates risk and power among a different types and kinds of stakeholders. On the other hand, selecting the appropriate capital combination is considered a challenging issue for both academics and experts (Handoo & Sharma, 2014).

In reality the capital structure of any business is a combination of various kinds and types of securities. Generally, an organization can select among several sources of financing. It can issue a common stock, a preferred stock; corporate bonds sign forward contracts or a combination of these refinancing sources. Thus, organizations strive hardly to find the best combination that maximizes the firm`s market value. Capital structure is "The mix of different debt and equity capital maintained by an economic entity" Ross, Westerfield and Jaffe (2002). However, Brealey and Myers (2010) defined it as "The mix of various securities that the firm issue".

According to Abor (2008) capital structure is “The specific mix of debt and equity a business uses to finance its activities”. However, AL-Shubiri, (2010) defined capital structure in operational perspective that comprise: “capital structure, leverage, ownership structure and behavior finance”. On the other hand, Mittoo & Zhang, (2005) contend that capital structure is “A mix of debt and equity capital maintained by a corporation”.

Eventually, Muritala (2012) defined capital structure as “The methods through which an economic entity or corporation finance it is activities and operations. Besides, It`s a firm`s proportion of short and long term debt and is considered when analyzing capital structure and it is the mix of debt and equity maintained by a business entity”.

2.6 Theories of the Code of Corporate Governance

2.6.1 Agency Cost Theory

In (1976), Jensen and Meckling developed the agency cost theory as they argued that there are principals who are mainly the investors and shareholders and agencies who are basically the corporate directors or executive senior officer. Principals authorize some of their authorities to agents and they anticipate that the agents well do for the best interest of principles to maximize their wealth in exchange of rewards and compensation. However, the agents May confront some challenges by opportunities and they may not do their best to the interest of principles honestly. Thus, they may desire to achieve maximum of their personal wealth in the expense of the corporation interests. Thus, the fundamental basis of the agency theory those

shareholders who are principle are not engaging in the routine and daily operations and activities of running and managing the business. Thus, they hire senior executive management who are called the agent to manage the business operations and activities on behalf of the shareholders. On the other hand, the objective of the managers is not the same as the objective of the shareholders (Habbash, 2010).

According to Eisenhardt (1989) argued that executive management and the board of directors sometimes work to protect merely their personal wealth, so that they do not care greatly in shareholders` interests. The agency dilemma will be not existing when interest of principal and agent are the same. Coleman (2007) argued that agency problem can be managed efficiently by joining large portion of independent directors for controlling and monitoring management efficiently. This theoy states that the best capital combination will be specifies by decreasing the costs incurring from conflicts between the different stakeholders engaged.

According to Jensen and Meckling (1976) agency costs act an essential role in financing decisions because of the strugle that may take place between diverse equity and debt holders. If businesses are confronting financial suffering, shareholders can motivate senior executive officers to take decisions that affect corporate debt holders appropriate to the interests of shareholders. Then, complicated debt holders will need a greater return on their money if there is a possibility to transfer the wealth.

According to Eisenhardt (1985) stated that there are two strategies of controlling board of directors and the senior managers to work for the best interest of shareholders these strategies are: behavior based and outcome based. These

strategies depend on performance assessment. Considering the agency theory, company`s performance may be revealing of an agency problem. Therefore, supporting corporate governance ought to result in increased business performance and accomplishment of the organization`s objectives.

According to Abdelkarim (2017), the separation between ownership and management of the corporation leads to the problem of information asymmetry as some parties that is the management have more and fast access to information that the shareholders and stakeholders thus they have more potential and aptitude to manipulate the financial and accounting information for the best interest of the managers` personal interests in expense of the investors and shareholders. He argued that these problems lead executive management and board of directors to finance their activities and financing requirements through internal sources are drained and equity is not issued till debt aptitude is practically exhausted. The second important issue attributes to the moral hazard rooted in the post-contractual prospects assuming that executives' objectives are in struggle with those of stockholders. Thus, supervisors don't exploit investors' interests that is wealth maximization but rather, follow their personal interests (Jensen and Meckling, 1976).

Thus, this theory suppose that one of the most important tools to reduce the agency problem is to raise the institutional investors percentage in the corporation as the existence of this type of investors increases the monitoring of the board of directors and the senior executive management decisions as the institutional investors have more ability and experience to make their investment decisions rationally and they

plan carefully when they make their investment decisions (Shleifer and Vishny 1986).

According to Firth (1995), there is a positive correlation between the institutional ownership and increasing the debt financing of the corporation. However, Bathala, Moon, and Rao (1994) revealed that the institutional investors are a negatively associated with the volume of the debt financing in the corporations. It is valuable to state that the conflict between senior executive management and institutional investors would be reduced when senior executive management possess a somewhat big ownership in their organizations, as they would incur some costs that emerge from their suboptimal behavior.

2.6.2 The Pecking Order Theory

Myers, 1984; Myers and Majluf, 1984 developed this theory. It contains both transaction costs and asymmetric information costs with an outlook to clarifying companies' financing attitude. This theory assumes that businesses specify no desire combination of the capital, rather than, it clarifies why corporations highly preferred internal funds, and they may want to obtain external funds only if all the internal funds have run out, for instance debt financing tools or issuance of new equity.

Myers (1984) at first discussed the simple asymmetric information approach because senior executive management has internal information, the disclosure of the issuance of equity or debt instrument may indicate information concerning the corporation`s outlook for the shareholders. That is, issuance of equity may be supposed as a sign of overvaluation, so indicating bad news and issuance of debt

typically expresses executives' future outlook concerning the situation of the corporation in the future. Thus, asymmetric information attributed with further stock issuance signaling bad news also establishes other expected cost: the prospect that the corporation will not have adequate cash to finance the firm because of the decision on not issuing additional stock and so that lessen a positive net present value of the project.

Transaction cost is another cost of new equity issuance that includes underwriting expenses, filing and disclosure expenses, underpricing of the new equity as well as the potential of a decrease in the price of current stock as of the issuance declaration. Therefore, these stock issuance expenses make corporations reluctant to select equity issuance. Thus, this theory based on the asymmetric information costs and transaction costs argue that corporations favor internal funds because they do not wish to be placed in the problem of rejecting positive net present value worth projects or selling their new shares at a very low price. Thus, there should be a combination between corporate dividend policy and fiscal policy. Thus, the normal rates of equity investment can be achieved by internal funds Corporations furthermore preserve a safe level of debt to evade high costs of financial constraints and maintain borrowing capacity thus debt can be used in instance of particularly worthy investment prospect, therefore despite the companies' ability to issue debt tools, they occasionally choose to issue common stock.

The pecking order theory assumes the use of the funding source with the lowest cost, and later, when it does not exist, the use of the other financing sources. Jegers (2008) argued that the cost of the Not for Profit Organization's equity is lower than

the cost of debt, so debt ought to be used just when equity is not adequate to accomplish the corporation`s financial requirements.

Thus, this theory assumes that companies favor internal financing sources over external financing sources. This theory has two fundamental assumptions that are: the existence of information asymmetry between senior executive management and the and shareholders. Besides, the other assumption that corporations would follow a pecking order in financing their projects and investment opportunities in which senior executive management would choose an internal source of financing instead of external sources. If these internal financing sources are inadequate and external funds are needed for capital investment, corporations will issue the most secure security first which is the debt financing sources.

Myers (1984) claimed that corporations would favor to use debt financing rather than using equity financing due to lower information costs attributed with financing through debt instruments. This results to an increase in the debt financing ratio. If there is a necessity for further sources of external financing, businesses operate down from safe the riskiest debt instruments, it is expected that the corporations would use at first convertible securities or preferred stock, and when it is practical, they can use more debt. After that, equity financing will be the last financing alternative shelter.

2.6.3 Stakeholder Theory

Freeman (1984) defined stakeholders as “Any group or individual who can influence or is influenced by organization`s objectives achievement”. This theory assumes that coordination and corporations ought to help all groups or persons who

have a “stake” in the company mainly employees, customers, suppliers, and local society. Whereas shareholder theory supports the “free market” principle, stakeholder theory claims that the problems of free rider, moral hazards, and monopoly power integral to the free market rationalize government involvement and CSR. According to this theory, public shareholding companies should create an equilibrium between the interests of all the stakeholders as the organization should be morale and ethical to work hardly to preserve the benefits of all the parties that have stake in the corporation (Alkhafaji, 1989).

Ayuso et al. (2012) claimed that stakeholder model assumes increasing the concentration of managers beyond the classical interest group of shareholders to recognize the desires, anticipation, and values of all stakeholders. So that, firm`s stakeholders can be defined as “Persons and communities that participate, either voluntarily or compulsorily, to its wealth-creating capacity and activities, and who are consequently its likely beneficiaries and/or risk bearers” (Post et al., 2002).

“Stakeholder theory has both normative (moral/ethical), descriptive and instrumental (profit/wealth-enhancing) implications”, as dealing with stakeholders can be considered as an obligation to accomplish all stakeholders’ legitimate claims and a method or instrument to maximize organizational wealth (Jones & Wicks, 1999). To realize board efficiency and performance arise, the stakeholder theory encouraged for large and well differentiated corporate board size that support the alignment of the interest of each group basically those that create value to the company (Rajan & Zingales, 1998). Thus, supporting stakeholder’s engagement in corporate governance ought to lead to an increase in corporation’s performance,

development of manufacturing sector and accomplishment of stakeholders interests.

2.6.4 Stewardship Theory

This theory argues that firm`s managers basically want to do a good job, contrary to agency theory that takes managers as opportunistic shirker (Donaldson, 1990). This theory perceives manager as steward. Davis et al., (1997) claimed that agents are trust well-intentioned to protect the organization`s resources as they are powerful to protect their position as expert decision makers. Thus, they wish to manage the organizations in a way that maximize financial performance as well as value of the firm.

2.6.5 Resource Dependency Theory

The resource dependency theory focused on essential board of directors` responsibility. The board of directors must perform its duties and fulfill its responsibilities outside of being a member of the board, as it is also considered the capital of a company. Thus, they have to fetch resources to the business such as important and critical information, skills, awareness, access to authority. Thus, they have the aptitude to maximize the firm`s value (Hillman et al., 2000). Thus, the corporation must encourage the attraction of external directors with good and wide experience and knowledge in different aspects and fields. Chemweno, (2016) stated that “board with strong external relations is a co-optation mechanism for firms to access external resources”.

2.6.6 Modigliani and Miller Theory

Franco Modigliani and Merton Miller improve the Miller Modigliani model in (1958). They claimed that under a particular defined assumption, a corporate financing alternatives do not influence the wealth maximization of the business this indicates that wither corporations use debt financing or equity financing this does not affect the wealth and the value of the business. While after that they introduced the tax factor, they revealed that leverage affects positively firm`s value this takes place because of a tax deductible of the interest expense so that larger part of operating income goes to shareholders and investors.

Modigliani and Miller suggested several propositions concerning the corporate governance and the corporations' capital structure. The first proposition in 1958, this proposition is unrelated to the corporation`s capital combination. This proposition assumes that the capital combination of the business not affect the firm`s market value. Eliminating tax impacts, firm`s value can be computed by dividing net operating income to the rate appropriate to firm's risk class. Thus, even though capital structure decisions are very important for the businesses and influence cash flow stream, do not affect the firm`s value but the allocation of the cash flow between lenders and shareholders.

Modigliani and Miller Proposition II (1988), this proposition is concerning the relation of cost of debt and cost of equity. They argued that there is a direct correlation between expected return of the investors and leverage because of the risk increase for investors. To sum up, this theory with very strong assumptions does not reflect the truth. Nevertheless, as Miller stated "presenting what does not

matter can also show, by implication, what does matter" these propositions put various perspective, led to the emergence of new theories and launched new era for capital structure theories.

2.6.7 Trade- off Theory

This theory integrates financial distress costs and agency costs into the M&M model with corporate taxes. This theory argued that a corporation may establish a target debt to value ratio where the tax interest from an extra dollar in debt is precisely equivalent to the cost from the increased prospect of financial distress, and the business can move steadily to that objective. That means a business trades off the benefits of debt financing due to favorable corporate tax treatment vs. greater interest rates, financial distress attributed costs and agency costs. (Thanh, 2015)

Abel (2018) argued that "the best debt ratio is where the marginal cost of increasing one dollar of debt and marginal benefit of one-dollar interest payment in terms of tax deductibility are equal"

2.7 The Previous Studies and Hypothesis Development

2.7.1 Dependent Variable

Researchers have used two major measurements of leverage that are either market leverage or book leverage. The book leverage is the ratio of BV of TD of the businesses to BV of its assets. As for the market leverage, it is the ratio of BV of TD of the business to BV of liabilities and the MV of shareholders` equity (Chakraborty, 2018).

According to Graham and Harvey (2001) firm`s management interests in book value when they establish their financial policies as book value is less vulnerable to change than market value so that it is better measurement of corporate capital structure

In this thesis, the researcher uses three measurements of the non-financial companies listed on the Palestine Exchange:

- Total leverage (TLEV) which is the percentage of total liabilities from the total assets.
- Short-term leverage (SLEV) that is the percentage of the current liabilities that is short term liabilities that are due within one year, such as trade credit from the total assets.
- Long-term leverage (LLEV) that is the percentage of the noncurrent liabilities from the total assets.

2.7.2 Independent Variables

These variables include a set of board of directors and ownership constitution mechanisms namely, board size (BSIZE), board meetings (BMET), Duality (CD), existence of audit committee (ACOM), foreign ownership (FORGN) and institutional ownership (INST). Besides using the independent variables, the models incorporate a collection of control variables that have been found by previous literature to be related to corporate governance and profit management. All of these variables are discussed below within three main categories.

2.7.2.1 Board Effectiveness

2.7.2.1.1 Board Size:

The board of directors is the body that is in charge of controlling and monitoring a corporation actions and adoption strategic decisions concerning the optimum corporate capital combination as corporations use leverage as a governance instrument to decrease the conflict of interests between the agents and principals by decreasing the agency costs of free cash flow that is available to executive management (Wen et al., 2002).

According to Ranti (2013) study, board size is the number of members in the corporation board of directors. Researchers found that there is no optimal board size in any universal standards (Suganya and Lingesiya, 2017). According to the Code of Corporate Governance in Palestine, the members of the board of directors of public shareholding companies must not be less than (5) and not more than (11) members.

Ranti (2013) found that there is a significant inverse relationship between board size and the capital structure. Likewise, Lipton and Lorsch (1992) revealed that there is a significant correlation between the size of the board and the capital structure. Furthermore, Berger et. al. (1997) found that there is an inverse relationship between leverage and the board size as the corporations that have larger size tend to have lower leverage ratio as they explain that the increasing the size of the board will force the executive management to use less leverage, which leads to increase the firm`s performance. Ghani et al. (2020) revealed that corporation that have larger board size usually prefer lower leverage ratio.

Anderson et al. (2004) revealed that the cost of leverage is usually lower for corporations (lower costs of corporate debt) with large board size since corporations that have larger board size provide higher level of monitoring and controlling of the financial accounting process. Besides, they claim that one of the most interesting responsibilities of the board from a creditor's view is controlling and monitoring of financial reporting of the corporation since debt holders depend on accounting based covenants in lending agreements, creditors may have interests in board and audit committee controlling and monitoring of the financial accounting process. Thus, the researcher in this study expects firms with larger board of directors tend to use issuance of debt more than equity issuance to finance their operations and activities in order to decrease agency costs for these corporations.

Abor and Biekpe (2007) investigated the relationship of corporate governance with Ghanaian SMEs capital structure through the use of regression analysis. The study results revealed that there is an inverse relationship between the size of the board and debt to equity ratio and SMEs that have larger size of the directors usually have low level of monitoring and controlling.

Otherwise, Jensen (1986) revealed that there is a positive correlation between board size and debt ratio as companies that have larger size of the board of directors will increase the control and monitoring of the executive management and protecting stakeholders' interests so that these corporations have more aptitude to access corporate leverage. Likewise, Wen et al. (2002) revealed that there is a positive correlation between the size of the board of directors and the financial leverage, they justify that result because corporations that have larger board size interest in

using the debt financing as they desire to maximize the shareholders` wealth and investment in the corporation. Likewise, Abor (2007) revealed that there is a direct association between board size and leverage ratio as the argued that corporations that larger board size are more embedded owing to greater oversight and controlling by regulatory organizations and bodies that follow greater higher leverage to increase the wealth of the corporation. Besides, large size of the board could create a troublesome in arriving at a consent in decision making.

Godfred, Bokpin and Arko (2009) inspect the impact of ownership combination and corporate governance on firm`s capital constitution decisions on the Ghana Stock Exchange over the period (2002 – 2007). Its results demonstrated that there is a direct correlation between managerial share ownership and the selection of long term financing. Besides, they demonstrated that there is a positive correlation between the size of the board of directors and using financial leverage indicating that directors typically will substitute equity for long-term leverage in their capital structure decisions.

According to Coles et al. (2008) there is a positive correlation between the size of the board and debt ratio in the US corporations since corporations with a high debt ratio may have more consulting requirements.

Al-Nodel and Hussainey (2010) revealed that there is a positive correlation between the size of the board of directors and corporation`s capital combination. The study claimed that large scale boards pursue a policy of greater levels of monitoring and controlling to support corporation`s value basically when these are rooted because of more controlling and monitoring by regulatory authorities. Besides, it is claimed

that larger board of directors may find trouble to reach agreement in the decision that may finally influence the corporate governance' quality and lead to greater levels of financial leverage.

Pfeffer and Salancik (1978) argued that larger size of the board gives the corporation the opportunity to access cheap sources of financing such as budgeting, funding and leveraging the external corporate environments that can lead to the development of the firm`s performance.

In conclusion, we can say that in general the results of the previous studies concerning the relationship between the size of the board and the capital structure in developing countries such as Irina and Nadezhda, (2009); O`Connell and Cramer, (2010); Al Manaseer et al., (2012) revealed consistency with the agency theory and revealed that there is an inverse relationship between the size of the board of directors and the performance of the corporation.

The largest percentage of studies revealed that there is an inverse relationship between the size of the board of directors and debt-equity ratio as a measurement of capital combination. It is, therefore, hypothesized that:

H1: There is a significant negative relationship between the board of directors' size and capital structure.

2.7.2.1.2 Board Meetings

The board's monitoring quality is expected to improve when the board meets more frequently (Ntim, 2009; Salisi, 2020). However, the board of directors` efficiency frequent meetings is influenced by the directors` traits, academic qualifications,

awareness and recognition, knowledge and expertise and whether the board is being paid for the meetings (Hassan, 2016).

Ntim (2009) argued that there is appositive correlation between the efficiency of the corporate board of directors monitoring an number of the board`s meetings. According to Al Manaseer et al., (2012) the number of the board of directors' meetings is a major indicator for the efficiency of the board of directors as increasing the number of the board of directors' meetings influences positively the business performance since the increasing number of board of directors' meetings plays an essential role in increasing the efficiency of the Board of Directors in monitoring and controlling the senior executive management.

Hsu and Petchsakulwong's (2010) demonstrated that businesses often increase the number of board of directors' meetings when there are several problems that need for decisions to meet them and solve these problems through making rational decisions. Besides, Salisi (2020) claimed that number of board meetings is an essential measurement since there is a direct relationship between the board meetings and the increasing corporate performance of the business and it efficiency. Thus, the board of directors have to increase the number of their meetings if the organization desires for greater level of control and monitoring.

Anderson (2004) mentioned that the number of the board of directors' meetings acts an essential role in increasing the efficiency of the control and monitoring in the organization. Persons (2006) argued that frequent board meetings reflect the diligence and vigilance that the board exhibits when performing oversight duties.

Besides, there is a positive relationship between the number of meetings and increasing the corporate performance of the organization.

It is expected that as the leverage of capital structure increases, the risk in the firm will also increases. At this condition, meeting will be more required to monitor the status of companies and reform them with creditors.

According to the Palestinian code of corporate governance, the board of directors have to hold at least (4) meetings per year.

H2: There is a significant positive relationship between the number of the board's meetings held every year and capital structure.

2.7.2.1.3 Duality (CEO / Chair Duality)

CEO duality indicates to the occasion when the chief executive officer (CEO) and board chair positions in the corporation are occupied by same person. According to Kieschnick & Moussawi (2018), CEO duality donates greater power to the CEO and decreases the aptitude of the board to monitor, supervision and discipline management. Whereas, Ghani (2020) revealed that there is a positive association between duality and capital combination. Likewise, Abor (2007) confirmed that there is a positive significant relationship between the CEO duality of the (CEO/ Chair) and the capital structure. Moreover, Fosberg (2004) revealed that corporations with single-tier structure (duality) are less expected to employ the optimum debt ratio in their capital structures than corporations with non-duality organization structure. Thus, the nature of the relationship between duality and leverage cannot be clearly predicted.

Fosberg (2004) claimed that there is a positive association between duality of leadership and debt ratio because dual driving reduces problems attributed to separation of ownership and control. So that, CEO duality corporations have high aptitude to access to external sources financing. Likewise, Faleye (2007) demonstrated that instable environment in Siri Linka because of the high managerial ownership and small number of directs in the corporation's board of directors leads to more potential for existence of CEO duality in corporation's leadership and managing. This duality may decrease information asymmetry matters and guide to more access to external debt sources of financing. Likewise, Abor (2007) noticed that corporations with duality pursue more debt capital structure policies.

Abor (2007) explored the relationship between the corporate governance characteristics and capital combination decisions of Ghanaian corporations through using the multiple regression method. The study results revealed that there is a positive correlation between capital structure and the size of the board, board composition, and CEO duality as Ghanaian firms with larger board size, higher percentage of non-executive directors, and CEO duality pursue greater debt financing policies.

Fama and Jensen (1983) consider decision management as the right to establish and execute new suggestions for the expenditure of the corporation`s resources and decision control as the right to approve and control those plans. By not permitting an insider manager to have both the decision management authority and decision control authority over the same project, a set of checks and balances are executed

that make it more problematic for managerial insiders to involve in any kind of opportunistic behavior. This suggests that the individual with the senior decision management authority that is the CEO ought to not be permitted to exercise the senior decision control authority as well. Because the board of directors is considered the top level decision control structure in the corporation, this needs that the board of directors must not be under the monitoring and controlling of the CEO. If the board of directors is controlled by the CEO, "this indicates the non-existence of separation of decision management and decision control" (Fama and Jensen, 1983).

Since the CEO has the most affect over the board of directors` decisions, the separation of decision management and decision control is negotiated when there is a duality of the CEO and the chair of the company. Therefore, necessitating the chair and CEO positions to be occupied by diverse individuals must further efficiently device the agency problems attributed with the separation of ownership and control characteristic in the recent companies.

It indicates that CEO acts two important roles with the position of chairman. Duru el at., (2016) argued that separation of CEO and chairman role increases company`s performance. On the other hand, Adams et al., (2005) and Rostami et al., (2016) claimed that when there is a duality of these roles in one person it will increase the monitoring and controlling through the corporation.

Ranti (2013) investigated the impact of CEO duality on firms' capital constitution in companies listed in Nigeria, the researcher selected a sample that consists of (40) companies throughout the period 2006-2011 through using the regression analysis

method. The study results indicated that there is a positive association between CEO duality and the firm`s capital constitution. Therefore, the following hypothesis is proposed:

H3: There is a significant positive relationship between the duality of Board members and capital structure.

2.7.2.1.4 Audit Committee

The audit committee is usually formed by the board of directors to ensure the limpidity of the company's accounts and inform the shareholders and other stakeholders of the degree of the risk that faces the company. The presence of this committee in public corporations would reduce agency cost (Menon and Williams, 1994; Reddy et al., 2010). Audit committee is responsible for overseeing and monitoring the process of financial report and ensuring the objectivity of external audit (Ho & Wong, 2001).

According to Fearnley and Beattie (2004) an audit committee is an essential mediator between corporate board of directors, management and external auditors. So that, the existence of an audit committee is anticipated to support and enhance the quality and magnitude of the flow of information between corporate owners and management (Barako et al., 2007).

The existence of audit committee acts an essential role in increasing the quality of the information and financial disclosure. Besides, it improves market performance. Thus, the existence of an audit committee decreases the agency cost in corporations and it increases corporate performance.

In general, the agency theory states that the conflict between executive management and shareholders usually results in top executive management's decision to accomplish their personal interests in expense of the shareholders` wealth maximization and shareholders` interests particularly when the executive management is quite adaptable (Jensen & Meckling, 1976).

Fama & Jensen, (1983) stated that without efficient control and monitoring activities and procedures, executive management may work against the interest of shareholders. Thus, the audit committee should be efficient and dynamic to solve the problem of conflict between the management and the shareholders and increasing the business performance. Furthermore, a good size of the audit committee allows members to use their experiences efficiently to accomplish the shareholders` interests.

Agency theory suppose that if the audit committee size is too large, this will lead to decreasing the efficiency and performance of the audit committee. A number of scholars and researchers explored the relationship between the size of the audit committee and the business performance in both developed and developing countries revealed that there is an inverse relationship between the size of the audit committee and the business performance. On the other hand, other researchers in developed countries revealed that there is a positive correlation between the audit committee size and the business performance such as Heenetigala & Armstrong, (2011) and Obiyo & Lenee, (2011).

Eventually, other scholars and researchers revealed that there is insignificant relationship between the existence of the audit committee and business performance

(Nuryanah and Islam, 2011) and Wei (2007). Moreover, the existence of the audit committee has a significant positive effect to firm value. Based on the association between audit committee and performance and value of the firm, the following hypothesis is set:

H4: There is a significant positive relationship between the existence of an audit committee and capital structure.

2.7.2.2 Ownership Structure

Ownership structure in Palestinian listed firms is characterized by a significant degree of institutional and foreign ownership. Hassan et al. (2016) reported that 52% of Palestinian listed companies are held by institutional investors. This study identified two major categories of ownership constitution institutional investors and foreign concentration.

2.7.2.2.1 Foreign Ownership

Do, Lai & Tran (2019) investigated the impact of foreign ownership on capital structure dynamics in Taiwan throughout the period 1997-2016. The study result indicated that firms that have greater portion of foreign ownership is expected to have greater level of corporate leverage. Besides, the study results demonstrated that foreign ownership acts an essential role in reducing the cost of debt that helps the corporation to modify the capital structure in order to decrease the cost of capital. The major implication of this study that the foreign capital is important in developing countries' economies.

According to Li et al. (2009) corporations that are owned by foreign investors had lower leverage than domestic businesses and that corporations that are owned by foreign had longer-dated debt. The main explanation of this result that is companies owned by foreign investors having more opportunity to access the source of capital, to have better governance system and efficient and modern executive management practices. Furthermore, Phung and Le (2013) explored the impact of foreign ownership on capital constitution and performance of non-financial companies listed on Vietname throughout the period 2008 -2011. The study specified a number of ownership types. The study results demonstrated that there is a positive correlation between foreign ownership and corporate leverage in these corporations.

Ezeoha and Okafor (2010) examined the impact of foreign ownership on capital combination in Nigeria through using a panel data for (71) non-financial listed companies for the period 1990-2006, the study results detected that there is a positive correlation between the foreign ownership and capital combination in the studied companies.

On the other hand, some studies revealed that there is a negative association between the foreign ownership and capital combination that is companies with larger stake of foreign ownership are expected to have lower level of corporate debt. For instance, Li et al. (2009) argued that there is a negative association between foreign ownership and capital combination in Chinese companies. This means that companies that are owned by foreign investors tend to use less amount of leverage. The main explanation of this result that the Chinese government and laws impose

lower level of taxes on foreign forms compare with local firms thus reducing the tax advantage of debt among firms that are owned by foreign investors. Besides, foreign firms have opportunity to access more sources of funds compared with local companies. Likewise, Huang et al. (2011) investigated the association between foreign ownership and debt in companies listed on China and revealed an inverse association, but various reasons were suggested for the result. Analyzing the different types of foreign ownership demonstrated that most of them were institutional investors and these foreign investors had the aptitude to monitor and control management and decrease agency costs that is emerged by the separation of ownership and control. The foreign institutional investors are perceived as substitutes to leverage, in accordance of controlling or monitoring management. The discussion so that is that if the foreign institutional ownership is well positioned to monitor management, there is no necessity to increase the level of debt to efficiently carry out the same responsibilities and duties.

According to Zou & Xiao (2006) there is a positive correlation between foreign ownership and corporate leverage especially in developing countries as the emerging markets suffer from information asymmetry. So that, foreign investors may prefer to invest in corporations with high leverage, thus the debt can act as an essential tool for monitoring. The insignificance of the findings could demonstrate that foreign ownership does not bother. An inverse correlation would be anticipated if foreign ownership can assume the monitoring role of debt. If there are information asymmetries, foreign ownership may prefer more debt in the capital

combination to allow debt funders to monitor management. SO that, decreasing the agency cost.

According to Phung and Le (2013), foreign ownership is positively correlated with capital structure due to information asymmetry in emerging countries. Likewise, Vo (2011) argued that to avoid information asymmetries, foreign investors choose local companies with specific distinctive characteristics. The study results demonstrated that foreign corporations preferred large scale local companies that have low level of leverage. An inverse correlation was noticed between foreign ownership companies and capital structure. Furthermore, the research results demonstrated that foreign investors were unfavorable to companies with a prevailing investor (that is, companies with a high ownership concentration).

Vo (2011:12) revealed that foreign ownership is inversely correlated with ownership concentration. These findings given a signal of the type of correlation that could be anticipated between foreign ownership and capital construction.

Gurunlu and Gursoy (2010) explored the impact of foreign ownership on capital structure in non-financial companies listed on the Istanbul stock exchange throughout the period 2007-2008, the studied sample consisted of (143) corporations. The study results demonstrated that foreign ownership is inversely related with long term liabilities because foreign investors provide more equity in financing their companies. Thus, decreasing the leverage of these companies.

Anwar and Sun (2015) investigated the impact of foreign investment on the capital construction of domestic firms in manufacturing firms in China throughout the

period 2000-2007. The study results shown that foreign ownership is inversely correlated with capital structure.

The researcher argues that in Palestinian case, despite the relationship between ownership and sources of funding is still ambiguous, previous studies in developing countries demonstrated that there is a positive correlation between the foreign ownership structure and firm's leverage due to several justifications: information asymmetry is expected to be a great issue that foreign shareholders have to confront. When taking the investment decision in Palestine, foreign shareholders and investors either individuals or institutions may face several problems and risks due to cultural differences and political changes. Thus, they prefer to use external sources through leverage in order to increase the managerial monitoring role. Furthermore, usually the listed companies in Palestine that attract foreign investors have a great reputation. Consequently, these companies enjoy stable cash flows and a large volume of existing valuable assets, giving them the bargaining power to borrow more money from various external sources at cheaper costs. Eventually, corporations and businesses that are owned by foreign investors have a greater advantage in decreasing agency cost that allows them to access more debts. Therefore, the researcher developed the following hypothesis:

H5: There is a significant positive relationship between the foreign ownership and capital structure.

2.7.2.2.2 Institutional Ownership

Researchers and scholar measure institutional ownership as "The percentage of the shares held by institutions as reported in the annual reports of the firms" (Hasan

and Butt; 2009). It acts an important role in controlling and monitoring the corporations in which they hold equity. Firm`s owners have various rights; for instance, rights include the directors` election who will do as an agent to control and monitor the firm`s executive management performance. Institutional activism takes place when the shareholders are dissatisfied with the board of directors` performance (Gillan & Starks, 2000).

According to Jensen and Meckling (1976), the senior executive management strive hardly to maximize their own utilities, attempt to decrease their human capital risk by decreasing the leverage level. On the other hand, Investors like more debt in order to increase their payoff. Institutional investors are required to provide more effective controlling and monitoring role on managers and are able to defend shareholders' interests. Therefore, we assume to notice a direct significant positive relationship between institutional holdings and the debt level of the corporate (Maris and Elayan, 1990).

Agyei and Owosu, (2014) revealed that institutional ownership is positively correlated with the reliance on leverage in financing the corporation`s financing requirements. However, other researchers such as Michaely and Vincent (2012) and KASABOĞLU (2017) demonstrated that there is an inverse relationship between institutional ownership and financial leverage.

Jensen (1986) found that institutional investors can play an important role in decreasing the agency costs by controlling and monitoring the firm`s performance and by driving senior executive managers to achieve the best interest of the investors and equity holders. Likewise, Lev (1988) claimed that the institutional

investors are well-informed in comparison with individual investors since those investors and shareholders have easy access to various information sources. Besides, Demsetz (1983) and Shleifer and Vishny (1986) claimed that institutional investors use their rights of voting to constantly monitor and control executive management decisions and activities effectively. Thus, Lakshmi (2009) revealed that: "The efficient controlling and monitoring of institutional investors may lead executive management to make decisions in the shareholders` interests". Their aptitude to purse self-interests may decrease. Therefore, managers may perceive it's risky to use debt and leverage financing. As well, Bajagai et al. (2019) revealed that there is a positive direct relationship between institutional ownership and debt-total assets ratio.

Salehi Abdoli and Eskandari (2017) investigated the relationship between the overconfidence of managers and their financing decisions with special focus on ownership construction in Tehran Stock Exchange throughout the period 2011-2015, the researchers analyzed the annual reports of (146) corporations. The results of the study demonstrated that there is insignificant impact for overconfidence and ownership type on financial decisions. Furthermore, the researchers found that the type of ownership and institutional owner ration expressed insignificant impact for overconfidence on financial decisions. While, the study findings revealed that the rate of institutional ownership significantly affects financial decisions level.

Choi et al. (2020) investigated the correlation between ownership construction and capital combination in a set of institutional listed firms in U.S. The study results demonstrated that there is inverse relationship noticed between the combination of

the capital and institutional investors. They found that institutional investors are an important instrument to control and monitors the board of directors' activities.

Hassan et al. (2009) revealed that there is a significant inverse relationship between board size and institutional shareholders and debt-equity ratio. Likewise, Yari and Abdi (2016) revealed that institutional ownership significantly effects financial decisions as institutional ownerships play an important role in corporate governance of equity. Institutional investors have various rights including right of board of directors' appointment to act as representatives of corporate governance performance.

However, institutional and major investors act an important role in the transmission of information to shareholders. They acquire private information from management and pass it on to others; then, they may influence corporate adopted financial decisions.

Hosseinzadeh et. al. (2016) investigated the relationship between capital leverage and ownership structure in listed companies in Tehran Stock Exchange. The researchers selected a sample of (88) listed corporations through the period of 2009-2012, the researchers revealed that there is a significant inverse correlation between capital constitution and the institutional ownership. On the other hand, there is no correlation between non institutional investors that is individual investors and capital structure that is reliance on financial leverage. Besides, Aggarwal and Goodell (2014) argued that the institutional investments affect the capital leverage of corporations.

Based on the agency theory, institutional ownership supports the controlling and monitoring instrument used to notice management behavior. Institutional investors have a more effective incentive than individual investors to take advantage from controlling and monitoring management (Ping and Wing, 2011). It is hypothesized that:

H6: There is a significant negative relationship between the institutional ownership and capital structure.

2.7.2.3 Control Variables

Besides the independent variables, the model also uses some control variables that can influence capital leverage: firm size, big four auditors and firm's profitability. Many proxies have been used by previous literature to measure firm size, such as the total assets (Ali, L. ,2011) and the net sales (Drobetz et al.,2006; De Jong et al., 2008; Nazir, Aslam, & Nawaz, 2012).

2.7.2.3.1 Firm Size

Large scale firms are more diversified and varied so that they have more aptitude to decrease the risk of bankruptcy, decreasing controlling and monitoring costs and decreasing information asymmetry. Besides, these factors affect the quality of the corporation information and financial and non-financial disclosure. So that, it is expected that firms with large scale have more aptitude to access debt financing sources. As Juhari Z, et al. (2020) found that there is a positive correlation between firm`s size and the ratio of debt in the corporation. The Firm Size was found as an important determinant to capital structure decisions (Fauzi, Basyith, and Idris,

2013; Rahman and Sannacy, 2017). Generally, all the theories of capital structure assume that there is direct positive relationship between companies` size and debt ratio. Trade-off theory assumes that corporations trade-off between the advantages of debt for example tax savings or mitigation of agency problems against the costs of leverage for instance bankruptcy costs.

Ghani et al. (2020) stated that there is high diversification in large scale firms so that these corporations do not suffer highly from bankruptcy risk. Thus, it's expected to find a positive relationship between the size of the business and reliance on leverage to finance their investment opportunities and activities. In opposite, firms with small scale usually suffer from the information asymmetries problem. Hence, smaller businesses have higher debt cost compared to large scale firms. Besides, Bevan and Danbolt (2002) argued that large scale firms can access different sources of external financing such as non-banking institutions as they have better ranking more than small scale businesses. Thus, this supports the argument that there is positive relationship between size of firm and size of leverage in these firms.

Fama and Jensen (1983) stated that large-scale firms disclose more information to stakeholders and lenders than small scale firms. Likewise, Rajan and Zingales (1995) claimed that firms with large scale provide more financial and non-financial information to external investors than small-scale firms. In general, large scale firms with low level of information problems have to have more equity amount compared to debt and so that have less leverage ratio. On the other hand, large scale firms usually have more diversification and they exercise higher level of stability

in cash flow; the possibility of bankruptcy for large scale firms is less than the opportunity for small scale firms. Likewise, according to Dimitrios, Nikolaos and Nikolaos (2001), large scale firms and corporation enjoy higher levels of debt financing compared to small scale firms.

Sbeiti (2010) investigated the factors determining capital structure of the Gulf countries council, the researcher selected a panel data of (142) firms, and the studied determinants included: firm`s size, profitability of the firm, tangibility, growth, liquidity and interest rate, the researcher found that there is appositive relationship between size of the corporation and the debt ratio.

Kelani, Qadumi and Amarna (2010) investigated the factors specifying the use of debt in Jordanian industrial companies during the period 2000 -2009, the researcher found that there is a positive relationship between the size of the firm`s assets and reliance on leverage in these firms. Besides, Osaretin & Michael (2014) investigated the of capital structure determinants of Nigerian listed companies. The result stated that there is a positive correlation between the firm`s size and the debt ratio in these corporations.

Fauzi et al., (2013) explored the factors that determines the capital structure of corporations listed in New Zealand through using panel data of (79) of listed corporations of New Zealand, the researchers revealed that there is positive association between tangibility, growth, signaling, managerial ownership and firm size and the leverage ratio of the firm and this result supports the tradeoff theory but the firm`s size follows the pecking order theory.

Khrawish (2010) investigated the factors affecting the capital combination of Jordanian industrial firms listed in Amman Stock Exchange throughout the period 2001 -2005 that is (30) firms. The study results revealed that growing firms with high levels of tangible assets use short-term debt rather than long-term debt. On the other hand, profitable firms tend to use less leverage.

Koloukhi (2018) explored the determinants of capital combination and performance in corporation`s listed in Tehran stock exchange, the researcher used a panel data of (123) firms during the period 2012 -2017, the researcher found that there is a positive significant relationship between firm`s size, financial leverage, and advertisement cost and the firm`s performance. Furthermore, the study results demonstrated that firm`s size, firm`s age, sale volume, and total earnings have a positive significant relationship with capital leverage.

Faris (2011) study show that there is a positive relationship between firm`s size and tangibility with capital leverage of Jordanian banking sector institutions, whereas risk and ownership concentration have an inverse relationship with the firm`s size and capital leverage. Likewise, Huang and Song (2002) revealed that there is a significant positive association between the size of Chinese's listed firms and its debt ratios. Furthermore, Gajurel (2010) found that there is a positive correlation between financial leverage and the firm`s assets structure and size, while there is a negative relationship between liquidity, risk, growth, non-debt tax shield and the firm`s debt and leverage of Nepalese listed companies. Moreover, Nicolas (2007) revealed that there is a positive direct relationship between the firm`s size and the financial leverage of Greece companies.

According to Huang and Song (2006) who explored the relationship between the firm`s size and leverage for a sample of (1200) Chinese firms during 1994-2003, show that there is direct positive relationship between leverage and firm`s size.

Abu Mouamer (2011) investigated the factors specifying the Palestinian listed companies` capital leverage during the period (2000-2004), the researcher selected (8) listed corporations and the studied variables included: firm`s profitability, firm`s leverage ratios with three measurements (TD, LTDR and STDR), asset structure, age, liquidity (LQ), and use a sales growth and firm size as control variables. The researcher found that the service companies have the highest total debt ratio among the Palestinian economic sectors. The study results also demonstrated that there is insignificant relationship between using debt, regardless of the measurement used, among listed corporation in the four strips. Besides, the study appeared that there is insignificant relationship between the total debt, long-term debt and short-term debt and companies' age, growth, Liquidity and companies' total assets size.

2.7.2.3.2 Being Audited by Big Four

Willenborg (1999) claimed that high quality audit has to limit the information asymmetry among the shareholders, investors and managers. So that, it affects a corporation` as it is expected to be a positive association between corporate financial leverage and audit quality measure. Furthermore, Chang et al. (2009) claimed that a business's financial statements act an essential role in decreasing the information asymmetry, and their integrity is interesting to well-functioning capital markets. But audit institutions may not provide same extent or amount of audit service with same audit fee. Empirical studies and researches confirmed that big

audit institutions are usually provide a greater amount of audit quality attributed with higher audit fees and charges. This higher audit fees indicate audit quality ought to decrease the agency conflicts between supervisors, managers and outsiders. So that, influencing a corporation's capital structure decision.

Feito-Ruiz et. al. (2018) inspected the impact of auditor quality and ownership structure on the debt maturity of Alternative Investment Market corporations through investigating the effect of Big 4 auditor and the corporations' ownership structure. The researchers selected a sample of (330) businesses throughout the period 1998-2016. The study results demonstrated that there is a positive and significant correlation between being audited by a Big 4 auditor and debt maturity that is indicating lower agency conflicts within these businesses firms. So that, their debt maturity increases.

Fan and Wong (2005) used a sample of (8) East Asian developing countries in order to investigate the impact of being audited by a big 4 auditors and capital leverage. The study results expressed that businesses that have severe agency problems such as struggles of interest between controlling shareholders and the minority interest of equity are more expected to select a Big 4 auditor institution. The major duties and responsibilities of external auditors is to impose the use of accounting rules. Their opinions have influence on both external and internal users of financial statements: for lenders, the reality that debtor institutions are clients of a Big 4 could save their interests against the strict control they have (El Ghoul, et al., 2016). Being a client of a Big 4 supports the businesses with the opportunity of getting financing at a lower cost as lenders have the desire to decrease monitoring costs by having to

accomplish less investigations every time, even more if the loan expires in the short term (El Ghoul, et al., 2016). From another perspective, for investors and shareholders, they have more desire to stay, or increase their investment if the business in which they have invested is a client of a Big 4. This reality increases the investors' confidence and, consequently, they recognize that their interests are well protected.

Mande et al. (2012) argued that there is a positive relationship between equity financing and corporate governance as a decrease in agency costs among investors, shareholders and managers in these businesses. The researchers revealed that businesses will resort to the issuance of equity as a final source of financing due to the large asymmetry in the information attributed to equity financing. Likewise, Van Caneghem and Van Campenhout (2010) revealed that the quantity and quality of auditing that are auditing services provided by a Big 4 firm has been recognized as a proxy for audit quality of financial statement information are positively related to Belgian SMEs' leverage. Furthermore, they demonstrated that there is a positive association between corporate leverage and asset structure, potential for growth and industry leverage.

El Ghoul et al. (2016) investigated the significance of Big 4 auditors in decreasing agency costs in corporate debt-maturity worldwide. The study results revealed that there is positive association between long-term debt ratio and the existence of a Big 4 auditor.

2.7.2.3.3 Firm's Profitability

According to Huang and Song (2006), profitability is the percentage of Earning before interest and tax and depreciation to total assets. According to trade off theory there is a direct relationship between the firm`s profitability and the reliance on leverage as increasing the profitability of the firms will increase the tendency of the organization to rely on leverage to finance their investment opportunities and projects since of debt tax deductibility of interest payment. However, pecking order theory assumes that there is an inverse relationship between the firm's profitability and leverage as Myers (1984) and Myers and Majluf (1984) claimed that since there is asymmetry in information between insiders of the company and the market, shareholders can undervalue corporation's equity. If businesses finance new investment opportunities by equity issuance, the net impact is that new potential investors get a greater gain from this investment than previously existing investors that may lead to reject the project or the investment opportunity on these bases despite when it has a positive Net present value. To get rid of this problem, internal funds and debt will be better than issuance of equity. Thus, corporations will favor to get finance firstly from the firm`s retained earnings, next from debt and eventually from issuance of new equity. Thus, this theory assumes that there an inverse relationship between the profitability of the corporation and the reliance on leverage.

According to Kester (1986) there is an inverse relationship between corporate leverage and firm`s profitability in USA and Japan. Likewise, Gunardi et al., (2020) revealed that there is a positive correlation between the firm`s profitability and

reliance on leverage. Moreover, Wald (1999) found that there is a negative correlation between leverage and firm`s profitability.

Deesomsak et al., (2004) found that there is an inverse relationship between leverage and profitability of the firm.

Kimiagari and Einali (2008) examined the main influencers of capital leverage in (78) listed firms in Tehran stock exchange throughout the period 2001-2005, they revealed that there is an inverse relationship between leverage and profitability. Likewise, Kordestani and Najafi (2008) explored the capital leverages determinants of listed companies in Tehran stock exchange through analyzing the financial statements of (93) corporations listed during the period 1999-2006, they revealed that there is an inverse relationship between profitability and firm`s leverage. Likewise, Akinlo (2011) investigated the capital leverage determinants in Nigeria through using a panel data of (66) corporations throughout the period 1999-2007. The study results demonstrated that there is an inverse correlation between firm`s profitability and it`s leverage.

Doruk Ilgaz (2013) investigated the factors that specifying the corporation`s capital leverage choice, their credit ratings and the leverage-rating relation. The study results revealed that there is an inverse relationship between profitability and capital leverage and this is in consistent with the pecking order theory as they revealed that corporations do not finance their projects and investments opportunities through debt financing sources till they exhaust their internal funds.

Ghosh, Petrova & Wang, (2012) investigated the factors determining the corporation`s capital structure through investigating if the firm`s market and

operating performance have a long lasting impact on corporation`s leverage. The study results revealed that there is an inverse relationship between firm`s profitability and firm`s leverage. Likewise, Kilani, Qadumi, & Amarna, (2011) explored the factors that specifying the use of debt in Jordanian Industrial Corporations throughout the period (2000-2009), the study results revealed that the leverage level in these firms is influenced by operating profit margin and assets growth rate. Likewise, Ramadan & Alokdeh, (2011) investigated the factors that affecting capital leverage of Jordanian corporations throughout the period 2000-2006 through using the regression method. The research results demonstrated that there is an inverse relationship between the capital leverage of Jordanian companies and firms' profitability and liquidity. Likewise, Osaretin & Michael (2014) explored the major determinants of capital construction of listed firms in Nigeria, the researchers found that there is an inverse insignificant relationship between firm`s profitability and reliance on leverage.

Rajan and Zingales (1995) inspected the capital structure determinants of corporations of seven developed countries (USA, England, Canada, France, Germany, Italy, and Japan). The researchers found that there is a negative correlation between profitability and financial leverage and book to market value. Likewise, Chen and Strange (2005) investigated the determinants of capital construction in corporations listed in Shanghai and Shenzhen stock exchange in China the researchers found that that there is a negative relationship between profitability and debt ratio in these companies.

On the other hand, Masdiah et al. (2017) investigated the relationship between capital structure and family and nonfamily firm`s profitability in Malaysia. The study results revealed that the greater firm`s profitability rely on equity as the most important financing alternative of firms. Besides, they demonstrated that increasing debt was related with decreased the size of the firm`s profitability.

Crnigoj and Meramour (2009) revealed that firm`s financial leverage is an inversely related with firm`s assets and profitability. Likewise, Nikolaos and Nikolaos (2001) argued that large scale organizations use more leverage in financing their capital. Besides, they argued that the Greek firms with high level of profitability prefer to use less debt than less profitable firms.

Khaldoun and Mohammad (2013) examined the factors specifying the Palestinian firm`s capital structure between (2003 – 2007), they revealed that Palestinian listed corporations have low debt to assets ratio, its long-term debt is factually non-existent, and that capital construction that is firm size and firm profitability are applicable to the Palestinian case. Likewise, Husni and Ali (2007) revealed that there is a positive correlation between firm`s leverage and total size of its assets size, and also between short and long-term debt with tangibility and profitability in Jordanian Industrial Companies. Besides, they revealed that there is an inverse correlation between firm`s profitability and short term financing. Besides, they revealed that high profitable and large scale Jordanian Industrial Companies are less likely to use short term financing.

El-Diftar, D. (2020) examined that influencers identifying the capital combination of nine developing countries of MENA Region, they found that the factors

influencing the capital construction of developing countries are the same as the case of developed countries. Besides, they revealed that there is an inverse relationship between firm`s profitability and debt ratio as profitable organization`s do not rely on leverage financing. Likewise, Gureharan (2010) found that there a negative correlation between profitability and financial leverage of ASEAN countries.

Masoud (2014) explored the factors specifying the capital combination choice of Libyan firms through selecting a panel data of (8) listed firms in the Libyan stock market throughout the period 2008-2013. The study results revealed that there is an inverse relationship between firm`s liquidity and profitability and the financial leverage ratios of the corporation. On the other hand, there is a direct positive correlation between firms` size and firm`s leverage ratio. Likewise, Kieschnick and Moussawi (2018) and Nazir, Aslam, & Nawaz, (2012) revealed that there is an inverse relationship between reliance on the debt and firm`s profitability.

Ghani et al. (2020) claimed that financial institutions and debt suppliers ought to be more eager to lend to profitable companies and businesses. Thus, there is a positive relationship between the firm`s profitability and reliance on leverage.

Chapter Three

The Study Methodology

3.1 Introduction

After going through the theories and bases of the non-financial firm's leverage, the measures of capital combination and previous methodologies adopted by former studies will be analyzed. In this chapter, the purpose of the study will be determined along with the adopted design for the study, the population and sampling and the most suitable methodology for data collection, analysis and least biased results.

3.2 Purpose

This research aims to distinguish and inspect the influencers affecting the capital leverage of the non-financial listed corporations in PEX. And also analyzing determinants that are related to influencing financing decisions.

3.3 Study Design

The classification of this study is the descriptive analytical method. And so, the quantitative approach was applied to achieve this research. The financial statements of the studied companies will be analyzed in a time series of seven years. This is to determine the relationship between leverage by its measurements (TDR, LTDR and STDR), and independent variables (board size, board meetings, duality, audit committee, foreign ownership, institutional ownership) in the presence of control variables (firm size, big four auditors and firm profitability). The financial statements (balance sheet and the income statement) relied on will be from published annual reports of companies listed on the PEX basically report mainly as the sample of the study.

3.4 Study Population

The current study include non-financial companies listed on the PEX during the period 2011-2017. The study exclude all financial companies (banking and insurance) due to their different nature "structure, methods and accounting practices" (Barontini & Caprio, 2006; Bøhren & Strøm, 2010), their regulatory environment and their capital leverage for non-financial corporations. At the end of year 2017, forty-eight firms were listed in PEX. These firms are categorized under five sectors: Investments, industry, services banking and financial services, and insurance. The Palestinian listed companies are traded in US Dollars and Jordanian Dinar.

Table 2. Description of the study population in 2011 & 2017 (Sectors).

Description of the study population in 2011 & 2017 (Sectors)			
	Sector	**Number of companies in the sector**	
		2011	**2017**
Non-Financial Companies (Study Population)	Investment	8	10
	Service	12	11
	Industry	11	13
	Totals	**46**	**48**

3.5 The Study Sample

The sample of current study was chosen based on a systematic elimination method; the industry of the company, the availability of necessary financial data within the period of 2011 – 2017 and, active on the PEX during the period 2011 to 2017. Therefore, the sample of the study consists of 27 out of 34 non-financial companies listed on PEX with audited annual reports within the period chosen. In addition, it should be noted that the banking and insurance sectors are excluded. As shown above, the sample originally consists of 34 non-financial companies (the study population) out of 48 total listed companies. However, companies that did not fulfil all requirements of necessary data published were excluded resulting in 27 companies to be a reliable sample of the study. The study consists of 9 investment firms, 6 service firms, and 12 industrial firms. The studied companies in this study represent 79% of the total number of listed non-financial companies.

3.6 Data Collection

Data of dependent, independent and control variables were manually obtained from the audited published annual reports of respected non-financial listed companies on PEX and companies' site for the years 2011-2017 as well as from the companies' guides published annually and other publications issued by the PEX during the same period. Relevant books, published research and thesis is also used.

Noting that this data is secondary data and is within proper validity and reliability according to the source.

3.7 Measurements of the Variables

Operational interpretations and measurements of the dependent, independent (Explanatory Variables) and control variables are described in the following table.

Table 3. Variables and Operational Definition & Measurements

Variables	Operational Definitions & Measurements
Dependent Variables:	
TDR	Ratio of total debt to total assets
STDR	Ratio of short-term debt to total assets
LTDR	Ratio of long-term debt to total assets
Explanatory Variables:	
BSIZ	Board size measured by total number of board members
BMET	Board meetings measured by number of meetings held every year.
CD	CEO duality: A variable take a value of 1 if CEO is the Chairman, 0 otherwise
ADCOM	Audit committee: audit committee's existence, company take a value of 1 if it has an audit committee where, 0 otherwise.
FORGN	Foreign ownership: percentage of common stocks owned by foreign investors.
INST	Institutional ownership: percentage of common stocks owned by institutional investors.
Explanatory Variables (Control Variables):	
SIZE	Corporate size: its measured by logarithm of total assets
PRO	Profitability: net profit after taxes divided by total assets.
AUDITOR	External Auditor: being audited by big four, a variable takes a value of 1 if audit firm is one of big four, 0 otherwise.

3.8 Specification of the Model

This data was analyzed using regression model cross firms and over time to reach the study objective. The regression model is summarized in this equation.

$Y_{it} = \beta_0 + X\ \beta_{it} + u_{it}$

i = 1; .....;27; t = 1; .....;7

where β0 is intercept, i indicates the cross-firm measure and t denotes the time measure, Y_{it} is the capital leverage of firm i's at time t, X_{it} is a 1 x Y vector of observations on X independent variables (e.g., $BSIZ_{it} + BMET_{it} + CD_{it} + ACOM_{it} + FORGN_{it} + INST_{it} + SIZE_{it} + AUDITOR_{it} + PRO_{it}$) for the i_{th} firm in the t_{th} period, β is a Parameter of the model, u_{it} is a random error.

In specific, the following three regressions models have been estimated to inspect the hypothesized influences of board effectiveness and ownership characteristics attributes on capital leverage:

$TDR_{it} = \beta_0 + \beta_1 BSIZ_{it} + \beta_2 BMET_{it} + \beta_3 CD_{it} + \beta_4 ACOM_{it} + \beta_5 FORGN_{it} + \beta 6 INST_{it} + \beta_7 SIZE_{it} + \beta_8 AUDITOR_{it} + \beta_9 PRO_{it} + u_{it}$

$STDR_{it} = \beta_0 + \beta_1 BSIZ_{it} + \beta_2 BMET_{it} + \beta_3 CD_{it} + \beta_4 ACOM_{it} + \beta_5 FORGN_{it} + \beta 6 INST_{it} + \beta_7 SIZE_{it} + \beta_8 AUDITOR_{it} + \beta_9 PRO_{it} + u_{it}$

$LTDRit = \beta_0 + \beta_1 BSIZ_{it} + \beta_2 BMET_{it} + \beta_3 CD_{it} + \beta_4 ACOM_{it} + \beta_5 FORGN_{it} + \beta 6 INST_{it} + \beta_7 SIZE_{it} + \beta_8 AUDITOR_{it} + \beta_9 PRO_{it} + u_{it}$

3.9 Data Analysis Plan

First of all, Descriptive statistics (Mean, Maximum, Minimum, Std. Dev.) is used to describe the data collected and it is based on the identification of hypotheses. Correlation (Pearson) test is conducted to determine the trend of the linear relationship between variables and the value of the correlation coefficient and the signal carried by that value and test the Multicollinearity. As it in previous studies, linear models to study these relations, Ordinary least squares (OLS) in a single moment, fixed effects for a panel with some years and random effect are a regression models of panel data that can be used in the study.

Chapter Four

Data Analysis & Test the Hypothesis

4.1 Introduction

In this chapter, the findings of the statistical analysis of the data of the companies under study were presented, discussed and analyzed with the discussion with other studies. This chapter presented descriptive statistics (mean, maximum, minimum and standard deviation). It includes correlation, model selection test and regression analysis to define the influence of independent variables (BSIZ, BMET, CD, ACOM, FORGN, INST, SIZE, AUDITOR, PRO) on the dependent variable capital leverage (TD, LTD, STD).

4.2 Descriptive Statistics

Table 4 view the descriptive statistics analysis for the variables included in the study during the period of 2011–2017 over the year and pooled data. According to the result of this study, it is obvious that the Nonfinancial Listed companies of Palestine depend in finance their activity on debt by average 28.67% of total assets. This percentage was and still is almost the same compared to a previous Palestinian study prepared in the period 2010-2012 (Hassan et al., 2016). It comprising of 19.02% short-term debts and 7.46% long-term debts respectively. This signify that companies are moving towards short-term financing more than long-term financing. This is coordinated with the results of previous Arab studies such as Abu Mouamer (2011), Taleb (2015) and HusniKh (2007) in developing country, and other developed country study Ali H. (2007) and Hossain & Hossain (2015).

The table also shows that, over the seven years, the average number of board members were 9. it ranged from 4 members to 18. This is evidence of some

companies' lack of commitment to the Palestinian Code of Corporate Governance which stipulates that in public shareholding companies, the number of the board of directors' members must not be less than (5) and not more than (11) members. Board meetings are held annually from at least one to thirteen meetings with a maximum of an average of 5, although the Code of Corporate Governance clarified that the board of directors have to hold at least (4) meetings per year. Almost 26% of the non-financial companies listed on the PEX, the CEO in them is the same person who serves as the chairman of the company. It is worth noting that this does not contradict the governance code in Palestine, but it is still not preferred internationally and is not considered a best practice. Over the seven-year period, its noticed the increasing trend of companies towards having the Audit Committee, approximately half of the companies had an audit committee. This means that companies are more committed to adhering to as much Palestinian corporate governance as possible, knowing that having an audit committee is optional, not mandatory. In addition, the period of 2011-2017 period did not notice a significant change in the ownership structure, the average ratio of institutional ownership is about 55%, and the average percentage of foreign ownership is about 24% of corporate ownership in Palestine. Likewise, firm size saw no noticeable changes during the period. It clear that 59% of the companies go to contract with audit firms because of their expertise and specialties, and this supports the company's reputation and the transparency of its information. Profitability, expressed as the ratio of return on assets, increased to register the average value of ROA of 2%

compared to the results of previous Palestinian studies, which recorded a rate of 1% (Abu Mouamer,2011) and 1.6% (Hassan et al.,2016).

Table 4. Descriptive Statistics

Variable	Year	Observations	Mean	Maximum	Minimum	Std. Dev.
TDR	2011	27	0.270000	0.604000	0.020000	0.181984
	2012	27	0.278918	0.616238	0.012920	0.174756
	2013	27	0.279624	0.673415	0.008810	0.188186
	2014	27	0.291512	0.720933	0.016984	0.199080
	2015	27	0.280691	0.718031	0.016643	0.189703
	2016	27	0.282378	0.695210	0.017609	0.180870
	2017	27	0.324418	0.751386	0.019053	0.183942
	Pooled	189	0.286794	0.751386	0.008810	0.183389
STDR	2011	27	0.16685	0.507	0.000000	0.139244
	2012	27	0.191441	0.493821	0.000132	0.139435
	2013	27	0.201883	0.581418	0.000147	0.160369
	2014	27	0.197533	0.540295	0.000128	0.146617
	2015	27	0.185056	0.502138	0.000000	0.143985
	2016	27	0.183850	0.479073	0.000000	0.140094
	2017	27	0.204879	0.523441	0.000000	0.153599
	Pooled	189	0.190216	0.581418	0.000000	0.144533
LTDR	2011	27	0.07448	0.383	0.000000	0.084132

	2012	27	0.081909	0.447910	0.000000	0.106037
	2013	27	0.074341	0.464054	0.000000	0.103054
	2014	27	0.068938	0.453006	0.000000	0.102931
	2015	27	0.067827	0.422297	0.000000	0.101134
	2016	27	0.068593	0.465768	0.000000	0.095862
	2017	27	0.086080	0.481997	0.000000	0.110799
	Pooled	189	0.074610	0.481997	0.000000	0.099475
BDSIZE	2011	27	8.96	14.00000	5.000000	2.066000
	2012	27	9.037037	15.00000	5.000000	2.377482
	2013	27	9.037037	15.00000	5.000000	2.441334
	2014	27	9.037037	15.00000	5.000000	2.425529
	2015	27	8.851852	15.00000	5.000000	2.491581
	2016	27	8.481481	15.00000	5.000000	2.407846
	2017	27	8.740741	18.00000	4.000000	3.070863
	Pooled	189	8.878307	18.00000	4.000000	2.451878
MEETINGS	2011	27	5.590000	12.00000	1.000000	1.824000
	2012	27	5.888889	12.00000	1.000000	1.846688
	2013	27	5.888889	10.00000	2.000000	1.281025
	2014	27	6.074074	12.00000	3.000000	1.491667
	2015	27	5.925926	13.00000	3.000000	1.591466
	2016	27	5.851852	12.00000	3.000000	1.485926
	2017	27	5.555556	8.000000	3.000000	1.250641

	Pooled	189	5.825397	13.00000	1.000000	1.538924
DUAL	2011	27	0.300000	1.000000	0.000000	0.465000
	2012	27	0.185185	1.000000	0.000000	0.395847
	2013	27	0.370370	1.000000	0.000000	0.492103
	2014	27	0.259259	1.000000	0.000000	0.446576
	2015	27	0.222222	1.000000	0.000000	0.423659
	2016	27	0.222222	1.000000	0.000000	0.423659
	2017	27	0.259259	1.000000	0.000000	0.446576
	Pooled	189	0.259259	1.000000	0.000000	0.439392
ADCOM	2011	27	0.703704	1.000000	0.000000	0.465322
	2012	27	0.333333	1.000000	0.000000	0.480384
	2013	27	0.370370	1.000000	0.000000	0.492103
	2014	27	0.592593	1.000000	0.000000	0.500712
	2015	27	0.592593	1.000000	0.000000	0.500712
	2016	27	0.629630	1.000000	0.000000	0.492103
	2017	27	0.703704	1.000000	0.000000	0.465322
	Pooled	189	0.502646	1.000000	0.000000	0.501321
FORGN	2011	27	0.220000	1.000000	0.000000	0.000000
	2012	27	0.248637	0.100500	0.856000	0.000000
	2013	27	0.249970	0.095600	0.852900	0.000000
	2014	27	0.243956	0.082600	0.854800	0.000000
	2015	27	0.244859	0.075200	0.856900	0.000000

	2016	27	0.235519	0.075200	0.853600	0.000000
	2017	27	0.224656	0.073600	0.924100	0.000000
	Pooled	189	0.242972	0.087600	0.924100	0.000000
INSTIT_	2011	27	0.630000	1.000000	0.000000	0.492000
	2012	27	0.536774	0.957400	0.000000	0.322855
	2013	27	0.540326	0.958800	0.000000	0.320897
	2014	27	0.553826	0.958500	0.000000	0.313919
	2015	27	0.567056	0.957700	0.000000	0.305898
	2016	27	0.571630	0.957300	0.000000	0.308644
	2017	27	0.566744	0.931700	0.000000	0.307865
	Pooled	189	0.554353	0.999200	0.000000	0.311689
SIZE	2011	27	7.506393	8.908300	6.560000	0.622421
	2012	27	7.482623	8.936925	6.605798	0.634393
	2013	27	7.499843	8.972354	6.626660	0.636685
	2014	27	7.494826	9.024211	6.580104	0.646287
	2015	27	7.507709	9.021674	6.335875	0.650110
	2016	27	7.507263	9.157869	6.233128	0.667110
	2017	27	7.554101	9.119510	6.189103	0.655410
	Pooled	189	7.507536	9.157869	6.189103	0.634720
AUDITOR	2011	27	0.520000	1.000000	0.000000	0.509000
	2012	27	0.518519	1.000000	0.000000	0.509175
	2013	27	0.518519	1.000000	0.000000	0.509175

	2014	27	0.629630	1.000000	0.000000	0.492103
	2015	27	0.592593	1.000000	0.000000	0.500712
	2016	27	0.666667	1.000000	0.000000	0.480384
	2017	27	0.703704	1.000000	0.000000	0.465322
	Pooled	189	0.592593	1.000000	0.000000	0.492657
ROA	2011	27	0.013330	0.158000	-0.122000	0.062812
	2012	27	0.023462	0.183965	-0.158307	0.067716
	2013	27	0.034470	0.260757	-0.181467	0.085440
	2014	27	0.002938	0.225199	-0.194349	0.092158
	2015	27	0.010779	0.218722	-0.621925	0.145029
	2016	27	0.028763	0.214445	-0.178825	0.076511
	2017	27	0.039534	0.187947	-0.133998	0.066328
	Pooled	189	0.021901	0.260757	-0.621925	0.088570

4.3 Correlation Analysis

The correlation coefficients matrix for all variables in table 5 to identify if the variables are correlated or not and determine the strength of variables. The findings mention that companies with board size, meetings and audit committee, more foreign ownership and a big 4 auditors are more likely to have an TDR. Companies that hold more meetings annually are more likely to get a higher STDR level. Companies are more likely to have more LTDR when it has audit committee and higher institutional ownership. As shown in the tables, the highest relationship in

correlation analysis registered between INTIT and AUDITOR variables when the TDR, the highest relationship in correlation analysis registered between INTIT and AUDITOR variables at 0.569458 when the TDR, STDR and LTDR, alternately. In comparison, the lowest relationship in correlation analysis registered between BDSIZE and DUAL variables at 0.004754 when the TDR, STDR and LTDR, alternately. Correlation test also investigates the possibility of a multicollinearity problem between variables. Notably, there are no concerns about multicollinearity because correlations between the independent variables are not high, not more than 0.80 (Lewis-Beck, 1993). The regression analysis cannot be done until multicollinearity problem has been solved.

Table 5. Correlation Analysis

	TDR	BDSIZE	MEETINGS	DUAL	ADCOM	FORGN	INSTIT_	SIZE	AUDITOR	ROA
TDR	1.000000									
BDSIZE	0.198737	1.000000								
MEETINGS	0.168556	-0.067688	1.000000							
DUAL	-0.027683	0.004754	0.075167	1.000000						
ADCOM	0.307449	-0.049502	-0.030424	-0.111794	1.000000					
FORGN	0.193255	0.035091	-0.091784	-0.081058	0.529959	1.000000				
INSTIT_	0.165336	0.186467	-0.341287	-0.243486	0.440915	0.280879	1.000000			
SIZE	0.298406	0.389039	-0.133092	0.017180	0.428382	0.357868	0.334471	1.000000		
AUDITOR	0.118198	0.051211	-0.129403	-0.369494	0.510503	0.147964	0.569458	0.408653	1.000000	
ROA	-0.301974	-0.024705	-0.01573	-0.014421	-0.051403	0.061643	-0.267401	0.207632	0.005283	1.000000

	STDR	BDSIZE	MEETINGS	DUAL	ADCOM	FORGN	INSTIT_	SIZE	AUDITOR	ROA
STDR	1.000000									
BDSIZE	0.182523	1.000000								
MEETINGS	0.220169	-0.067688	1.000000							
DUAL	0.089308	0.004754	0.075167	1.000000						
ADCOM	0.080502	-0.049502	-0.030424	-0.111794	1.000000					
FORGN	0.055772	0.035091	-0.091784	-0.081058	0.529959	1.000000				
INSTIT_	-0.035806	0.186467	-0.341287	-0.243486	0.440915	0.280879	1.000000			
SIZE	-0.060709	0.389039	-0.133092	0.017180	0.428382	0.357868	0.334471	1.000000		
AUDITOR	-0.093480	0.051211	-0.129403	-0.369494	0.510503	0.147964	0.569458	0.408653	1.000000	
ROA	-0.225167	-0.024705	-0.01573	-0.014421	-0.051403	0.061643	-0.267401	0.207632	0.005283	1.000000

	LTDR	BDSIZE	MEETINGS	DUAL	ADCOM	FORGN	INSTIT_	SIZE	AUDITOR	ROA
LTDR	1.000000									
BDSIZE	-0.070791	1.000000								
MEETINGS	0.028182	-0.067688	1.000000							
DUAL	-0.077972	0.004754	0.075167	1.000000						
ADCOM	0.274920	-0.049502	-0.030424	-0.111794	1.000000					
FORGN	0.113839	0.035091	-0.091784	-0.081058	0.529959	1.000000				
INSTIT_	0.268955	0.186467	-0.341287	-0.243486	0.440915	0.280879	1.000000			
SIZE	0.130430	0.389039	-0.133092	0.017180	0.428382	0.357868	0.334471	1.000000		
AUDITOR	0.283987	0.051211	-0.129403	-0.369494	0.510503	0.147964	0.569458	0.408653	1.000000	
ROA	-0.018404	-0.024705	-0.01573	-0.014421	-0.051403	0.061643	-0.267401	0.207632	0.005283	1.000000

Correlation Sig. at 0.8

4.4 Building Regression Models for the Data

4.4.1 Selection of Models

As the results of the F-test, Breusch-Pagan tests and Hausman test as reported in Table 6 for the three leverage measures, the random effect models are preferred on the fixed effect model and pooled least square regression model. Hence, F test can used to examine fixed effects model. It considers a Pooled Ordinary Least Squares (OLS) model as selection of acceptance of H_0 and fixed effects as substitutional hypothesis. Breusch-Pagan LM Test used to test random effects model. It considers

a Pooled Ordinary Least Squares (OLS) model as selection of acceptance of H_0 and random effects as H_1 (Breusch and Pagan, 1980). Hausman test was used to decide between the fixed effect model and the random effect model if H_0 hypothesis is rejected for F and Breusch-Pagan tests. It considers a random effect as H_0 and fixed effects as H_1 (Park, 2011). The H_0 hypothesis is unacceptable if p-value of Chi-square is not more than 0.05.

Table 6. Model Selection Tests.

Dependent	*F-Test*		*Breusch-Pagan test*		*Hausman test*		*Selection*
	F	*P-value*	*Chi-square*	*P-value*	*Chi-square*	*P-value*	
TDR	9.062840	0.000000	19.17	0.0000	13.374155	0.1464	Random
LTDR	6.537701	0.000000	37.25	0.0000	8.913105	0.4453	Random
STDR	4.333520	0.000040	44.82	0.0000	15.62445	0.1557	Random

4.4.2 Regression Models

Table 7. Regression Analysis

Table 7 shows the Regression result, regression coefficients and their P-values (Sig.) of each of explanatory variable. In addition, the adjusted coefficient of determination (adjusted R-Square) and probability of each dependent variable on the view of all explanatory variables (BDSIZE, MEETINGS, DUAL, ADCOM, FORGN, INSTIT, AUDITOR, PROFITABILITY (ROA)). The variable considers to be statistically significant at 0.05 level in general.

	Regression 1		Regression 2		Regression 3	
	TDR (Random effect)		LTDR (Random effect)		STDR (Random effect)	
Variable	**Coefficient**	**P-Value**	**Coefficient**	**P-Value**	**Coefficient**	**P-Value**
C	-0.493070	0.1101	-0.406615	0.1965	0.121032	0.6614
BDSIZE	-0.003752	0.4613	-0.004411	0.0922**	0.009048	0.0557**
MEETINGS	-0.020678	0.0042**	0.002934	0.5464	-0.012662	0.0564**
DUAL	0.027298	0.1874	0.021110	0.1276	0.007012	0.7146
ADCOM	0.035128	0.0623**	-0.003908	0.7532	0.014492	0.4060
FORGN	0.003309	0.9621	0.059177	0.2820	-0.019153	0.7632
INSTIT_	-0.169048	0.0291**	-0.078417	0.2325	-0.164190	0.0197*
SIZE	0.133522	0.0019*	0.071717	0.0897**	0.019855	0.6030
AUDITOR	0.015503	0.5948	-0.015696	0.4294	0.010299	0.7026
ROA	-0.447582	0.0000*	-0.011153	0.8673	-0.272972	0.0035**
R-squared	0.206101		0.247391		0.114632	
Adjusted R-squared	0.166184		0.209550		0.070117	
F-statistic	5.163279		6.537701		2.575103	
Prob (F-statistic)	0.000003		0.000000		0.008227	

Note. Here, * and ** represent 5% and 10% significance level respectively.

- The regression model analysis of TDR shows that F=5.163279, P-value (Sig.) = 0.000003, which prove a significant association between the TDR and independent variables at all. It also presents that adjusted R-Square = 16.6184%. This means that the combined set of explanatory variables interpret 16.6184% of the variance in the TDR.

- The regression model analysis of LTDR shows that F=6.537701, P-value (Sig.) = 0.000000, which prove a significant association between the TDR and

independent variables at all. It also presents that adjusted R-Square = 20.9550%. This means that the combined set of explanatory variables interpret 20.9550% of the variance in the TDR.

- The regression model analysis of LTDR shows that F=2.575103, P-value (Sig.) = 0.008227, which prove a significant association between the TDR and independent variables at all. It also presents that adjusted R-Square = 7.0117%. This means that the combined set of explanatory variables interpret 7.0117% of the variance in the TDR.

Adjusted R-squared of the models low but consist with other study like Ruilin Liu (2014) with 1%-2% range of adjusted R-Square and 3.8% of LTDR's adjusted R-Square in Kythreotis et al. (2018) study.

And in discussing the effect of statistical significance for each factor separately:

4.4.2.1 Board Size

The finding suggests that larger boards have insignificant negative effect on TDR. But it has insignificant negative effect on LTDR and insignificant positive STDR, both are marginal significant at 10%. Thus, hypothesis in general H1 is supported and board size have a significant impact on capital leverage. The significant negative result is on the line with previous studies that found a negative relationship between board size and firm leverage such as Berger et al., 1997; Abor and Biekpe, 2005 and 2007; Irina and Nadezhda, 2009; O`Connell and Cramer, 2010; Al Manaseer et al., 2012; Ranti, 2013. This is due to the fact that the Board of Directors includes people who are more conservatism against financial risk and therefore increase the pressure on executive management to use lower leverage to

achieve firm's goals. Another possible explanation for the inverse relationship is that the increase in the number of board members increases the variety of qualifications and experience and therefore it is likely that they prefer the risk ratio to be lower and therefore the debt ratio to be lower. It is noted that the inverse relationship is commensurate with the expectation of agency theory as the size of the small board of directors in companies encourages the use of more debt.

The significant positive result is coordinated with previous studies that found a positive relationship between board size and firm leverage such as Pfeffer and Salancik, 1978; Jensen, 1986; wen et al., 2002; erson et al., 2004; Abor, 2007; Coles et al., 2008; Godfred, Bokpin and Arko, 2009; Al-Nodel and Hussainey, 2010. A possible clarification for the significant positive relationship between board size and Leverage is that it pursues a policy of greater monitoring and controlling level of executive management and this will increase the aptitude to reach and access corporate leverage. Moreover, it increases the controlling and monitoring of financial reporting and have more transparency which contribute in debt process and reduce a debt cost.

The significant result show that whatever the number of the board member's increases, they tend to finance the company through short-term debt more than long-term, maybe that due to the lack of funding sources through long-term debt in Palestine. Banks is the limited sources of LTD and no bonds in the Palestinian market. They may also prefer to pay interest in a short time and not for a long time.

4.4.2.2 Board Meetings

The result reported a significant negative influence of meetings on TDR. There is insignificant positive influence of meetings on LTDR but partly significant negative effect of meetings on STDR at 10%. Thus, hypothesis in general H2 is supported in the TDR and STDR models. The higher the number of board meetings, the more efficiency of follow-up to the company's activities, performance and business results, as was reached in previous studies erson, 2005; Ntim, 2009; Al Manaseer et al., 2012; Salisi, 2020. The possible explanation behind the significant negative relationship that they are likely to prefer a low risk and a low debt ratio in the Palestinian company. On the other hand, the evidence of the Board of Directors monitoring and follow-up of the company's activities can also create a better image that leads to a business relationship with the lender this explains the existence of a significant positive relationship.

The possible interpretation of the insignificant relationship between board meeting and leverage the failure to use an effective policy in employing persons with appropriate education, knowledge and expertise.

4.4.2.3 Duality

The regression models show that the coefficients of CEO duality are insignificantly and positively associated with the three capital leverage measures. Therefore, hypothesis 3 suggested a significant relationship between the board members' duality and capital combination decisions of Palestinian nonfinancial firms is rejected. The positive sign implies that Palestinian nonfinancial firms which have the CEO duality tend to employ higher levels of debt than other firms. This finding

lends partial support to some previous literature (Fosberg, 2004; Faleye, 2007; Abor, 2007; Ranti, 2013) which argued that firms tend to have high leverage levels when one person occupies the position of CEO and Chairman of the Board of Directors. This result can be explicated on the grounds of the stewardship theory which suggests that CEO duality leadership minimizes coordination and communication conflicts between board of directors and management team resulting from the separation of ownership and control especially in an uncertain and unstable environment. More specifically, firms under dual CEO leadership structure are more likely to have better accessibility to external fund. But it conflicts with agency theory that predicts less debt use with the CEO playing a dominant role among CEOs to avoid debt disciplinary mechanisms.

4.4.2.4 Audit Committee

The analysis presents that while the audit committee variable is positively related to the TDR and STDR measures, it is negatively related to the leverage level as measured by LTDR. However, the coefficient of audit committee is marginally significant (at a 10 % significance level) only for the TDR model. This implies that hypothesis 4 proposed that the audit committee's formation is significantly positively associated with the leverage level is supported only when the leverage is measured by TDR and rejected when measured by STDR and LTDR. The significant and positive association between audit committee formation and leverage level measured by TDR can be explained as the existence of such committee enhances the reporting quality and the information flow between firm stakeholders (including lenders) and management. As an internal governing

mechanism, audit committee provides assurance to company lenders and other stakeholders that management is held accountable in using resources and that the company is performing well. Thus, firms establishing audit committees are more likely to promote lender confidence and trust and can much more easily get approval for outside sources of funding. On the other hand, the insignificant relationship between the audit committee' existence and the other two leverage measures (LTDR and STDR) may be justified as mere formation of such committees does not necessarily indicates that these committees are effective (Hassan, 2015). In Palestine case, the PCMA code only encourages firms to establish audit committees without requiring any disclosure related to their characteristics.

The insignificant coefficient suggests that the board characteristics of non-financial listed Palestinian company has no direct influence on capital combination of the company. This confirms that the characteristics of the Board of Directors in Palestine do not exercise its governance role as elements of corporate governance in influencing the capital leverage and debt financing. The justification of the insignificant association may be due to that most of the company's ownership is concentrated in the hands of some people and holding ownership by family owners and not independent directors. Although the board independence is not mandatary in Palestinian corporate governance but this will affect the effectiveness of the board and its efficiency of monitoring and controlling the executive management.

4.4.2.5 Foreign Ownership

The regression models show that foreign ownership is insignificantly positively related to capital leverage measured by both TDR and LTDR. However, negative and insignificant association is reported between foreign ownership and STDR. Therefore, hypothesis 5 proposed a significant relation between the foreign ownership and capital leverage is not supported. This finding contrasts with empirical findings from some previous literature. Some literatures in emerging economies (Zou & Xiao, 2006, Ezeoha and Okafor, 2010; Phung and Le, 2013; Do, Lai & Tran, 2019) reported positive association of the proportion of foreign ownership with leverage and foreign investors can act an important role in reducing the cost of debt which enables the firms to modify their capital combinations to decrease the cost of capital. Firms in emerging markets suffer from information asymmetry more than developed countries and the debt may act as an important monitoring tool. Thus, it is more expected that foreign investors will invest in highly leveraged firms. As firms with foreign ownership have better governance systems and efficient executive management practices, they have more opportunity to access more sources of funds compared with local companies. On the other hand, other studies (Li et al., 2009; Gurunlu and Gursoy, 2010; Vo, 2011; Anwar and Sun; 2015) found that firms owned by foreign investors tend to use less levels of leverage. According to these studies, foreign ownership acts as a monitoring mechanism and thus is perceived as substitutes to leverage.

Our finding suggests that in an instable environment like Palestine, the relationship between ownership and sources of funding is still ambiguous. In a highly uncertain

political and economic environment in Palestine, the information asymmetry severely affects foreign investors' confidence. Therefore, foreign investors in Palestinian firms may prefer to depend on other governance mechanisms in order to increase the managerial monitoring role.

4.4.2.6 Institution Ownership

Finally, the result revealed a significant negative influence of the institution ownership on TDR and STDR. But there is insignificant negative influence of the institution ownership on LTDR. Thus, hypothesis H6 is supported in general. The finding of this study is similar to some previous literature (Hassan et al., 2009; Michaely and Vincent, 2012; Hosseinzadeh et. al., 2016; KASABOĞLU, 2017; Choi et al., 2020). Therefore, the institutional investment in the Palestinian listed firms appears to adversely affect the debt ratio of the corporation. This finding supports the agency theory states that institutional ownership supports the controlling and monitoring instrument used to notice management behavior.

Two reasons may explain such result. Firstly, institutional investors are usually having substantial ownership and tend to exercise their power and influence to monitor and control executive management decisions and activities effectively, without having to worry about the monitoring role associated to debt. Secondly, institutional investors are less willing to invest in firms with a high level of indebtedness, and hence risk. In comparison with individual shareholders, institutional investors are well informed and have sufficient access to various information sources and can make informed decisions.

4.4.2.7 Firm size

Size has a significant positive impact on TDR and partly significant positive effect on LTDR at 10%. But it practiced insignificant positive influence on STDR. The result consists with previous literature that mentioned significant positive effect (Huang and Song, 2002; Nicolas, 2007; Faris; 2011; Abu Mouamer, 2011; Fauzi et al., 2013; Osaretin & Michael, 2014). By increasing the size of the company, it increases the volume of its operations, and therefore it needs more funding to manage its operations. Depending on the size of the company, larger companies have the aptitude to decrease the risk of bankruptcy and are able to secure more debt because they usually have a higher debt capacity. And creditors also have the desire to lend to large companies more than small because they are more secure. Also, large companies have the ability to provide more information and thus increase its debt capacity. Thus, the result of a study is consistent with Trade off theory, but it is incompatible with peaking order theory.

4.4.2.8 AUDITOR

Being audited by big four has insignificant impact on TDR, LTDR and STDR. It affects positively on TDR and STDR but negatively on LTDR. The result did not consistent with what was stated in previous studies, that the company's audit by big four significantly contributes to reducing the cost of debt, asymmetry information problem and agency cost in order to more leverage (Fan and Wong, 2005; Chang et al., 2009; Mande et al., 2012; El Ghoul, et al., 2016). This is due to the auditor's role being limited to auditing without providing financial advisory services. It is

possible that the company hired another party for financial advice, but it is not big four auditors.

4.4.2.9 ROA

The profitability measured by ROA has a significant negative impact on TDR and STDR. But it has insignificant negative impact on LTDR. The result was consistent with previous studies in developed and developing countries (Booth et al. (2001) Gureharan, 2010; Husni and Ali, 2007; Nazir, Aslam, & Nawaz, 2012; Khaldoun and Mohammad, 2013; Masoud, 2014; Moussawi, 2018 and others). The significant negative association consistent with Pecking order theory it is expected that profitable companies have internal financing sources in the form of retained earnings for use before resorting to debt. In addition, the ability of the company to maintain profitability and therefore bear lower costs (i.e. debt cost) and thus a lower debt rate.

As viewed in the table 7, based on the P-value (Sig.), the models TDR, LTDR and STDR with probability result 0.000003, 0.000000, 0.008227 respectively are significant at all. The models are significant as the probability is less than 5%. In specific:

- The most significant independent variables on TDR is Profitability, Firm Size, Meeting, Institution ownership and Audit Committee, respectively.
- The most significant independent variables on LTDR is Firm Size and Board Size, respectively.

- The most significant independent variable on STDR is Profitability, Institution ownership, Board Size and Meetings, respectively.

Based on the regression results the models equations are as follow:

TDR_{it} = - 0.493070 - 0.003752 * $BSIZ_{it}$ - 0.020678 * $BMET_{it}$ + 0.027298 * CD_{it} + 0.035128 * $ACOM_{it}$ + 0.003309 * $FORGN_{it}$ - 0.169048 * $INST_{it}$ + 0.133522 * $SIZE_{it}$ + 0.015503 * $AUDITOR_{it}$ - 0.447582 * PRO_{it} + u_{it}.

$LTDR_{it}$ = - 0.406615 - 0.004411 * $BSIZ_{it}$ + 0.002934 * $BMET_{it}$ + 0.021110 * CD_{it} - 0.003908 * $ACOM_{it}$ + 0.059177 * $FORGN_{it}$ - 0.078417 * $INST_{it}$ + 0.071717 * $SIZE_{it}$ - 0.015696 * $AUDITOR_{it}$ - 0.011153 * PRO_{it} + u_{it}.

$STDR_{it}$ = 0.121032 - 0.009048 * $BSIZ_{it}$ - 0.012662 * $BMET_{it}$ + 0.007012 * CD_{it} + 0.014492 * $ACOM_{it}$ – 0.019153 * $FORGN_{it}$ - 0.164190 * $INST_{it}$ + 0.019855 * $SIZE_{it}$ + 0.010299 * $AUDITOR_{it}$ - 0.272972 * PRO_{it} + u_{it}.

Chapter Five

Conclusions and

Recommendations

5.1 Introduction

At the end of the study, this chapter introduces the conclusion reached from this study, the recommendations that this study recommends and the proposals that can be addressed in future research.

5.2 The Conclusions and Recommendations

In this study, the relation of Board Effectiveness and Ownership Structure as governance instruments with capital structure Nonfinancial Listed Firms in Palestine is analyzed. Capital combination is one of the most important matter of financing decision. Theories have been developed to determine the optimum debt-equity ratio in the literature view. The theory in this field started a recent period through Modigliani and Miller's major paper on theories of capital structure. After that, other research and practices in this field emerged. Moreover, capital structure determinants from board and ownership characteristics are also deeply investigated area. The deeply combination of these two aspects is rarely combined like this study do of Nonfinancial listed firms in Palestine.

It is concluded that the mechanisms of corporate governance related to the board of directors and the ownership structure are interrelated and have an impact on a developing economy such as the economy of Palestine and its unstable conditions. Based on what the Palestinian economy means in terms of restrictions and taxes imposed on financial transfers, exchange and freedom of internal movement and goods. In addition to what the financial companies that face the restrictions of the military occupation under the pretext of security, which prevent them from

obtaining financing according to their needs, which will make state-owned companies hesitant to take the appropriate decision. In addition, most of the company's ownership is concentrated in the hands of some people and owned by the family owners. The size of the board of directors, the number of annual meetings, and the presence of the audit committee as the most important mechanisms for the board of directors to be more effective and institutional ownership in the company proved its importance in choosing the company's financing. Its behavior in the Palestinian market is closer to the application of agency theory.

According to what fits with panel data of the study, regression of random effect is used to analysis it. The result of regression test to the three models of the study show that most of the variables studied have significant effect on capital leverage of Nonfinancial Listed Firms in Palestine and it considered as one of capital structure's determinants. The influencing factors change with a leverage's indicator change. Profitability, Firm Size, Meeting, Institution ownership and Audit Committee were found to have significant effect on TDR as a measurement of the leverage ratio. Firm Size and Board Size were found to have significant impact when LTDR used as a measurement of the leverage ratio.

Finally, when we use STDR as leverage's indicator, Profitability, Institution ownership, Board Size and Meetings play a significant role in determining the leverage ratio. Table 8 summarizes, obtained and concluded the relationships resulting from the analysis. to achieve the main objective of the study, which is the

relationship between the capital structure of Nonfinancial Palestinian Listed Firms on one hand and Board Effectiveness and Ownership Structure on other hand.

Table 8. Summary table of the relationships resulting in the analysis

	Regression 1		Regression 2		Regression 3	
	TDR (Random effect)		LTDR (Random effect)		STDR (Random effect)	
Variable	**Coefficient**	**P-Value**	**Coefficient**	**P-Value**	**Coefficient**	**P-Value**
C	Negative	Insignificant	Negative	Insignificant	Positive	Insignificant
BDSIZE	Negative	Insignificant	Negative	Significant**	Positive	Significant**
MEETINGS	Negative	Significant*	Positive	Insignificant	Negative	Significant**
DUAL	Positive	Insignificant	Positive	Insignificant	Positive	Insignificant
ADCOM	Positive	Significant**	Negative	Insignificant	Positive	Insignificant
FORGN	Positive	Insignificant	Positive	Insignificant	Negative	Insignificant
INSTIT_	Negative	Significant*	Negative	Insignificant	Negative	Significant*
SIZE	Positive	Significant*	Positive	Significant**	Positive	Insignificant
AUDITOR	Positive	Insignificant	Negative	Insignificant	Positive	Insignificant
ROA	Negative	Significant*	Negative	Insignificant	Negative	Significant*

Note. Here, * and ** represent 5% and 10% significance level respectively.

This study derives its importance due to its benefit and impact on policymakers in the Palestinian market and financial managers in Palestinian companies, as well as researchers of other studies. Those setting corporate governance must observe these determinants when setting corporate governance codes and mechanisms and amend them to be more effective and contribute more to the optimal use of corporate resources. The study recommended the necessity of the Palestinian companies to abide by the corporate governance and to seek mandatory application thereof. In addition to going to mandatory in the application of the optional ones in compliance with the best practice, which is expected to become mandatory in the future. The

government has an essential role in enforcing and monitoring corporate governance compulsorily. The study recommends the authorities responsible for setting corporate governance to work to provide a deeper clarification of governance mechanisms such as determining the qualifications of members of the Board of Directors and the Committee and the number of its members of the Audit Committee in compliance with best practices worldwide. And the study recommended that companies need to adhere to the number of the Board of Directors and its annual meetings, and the presence of an audit committee to increase the effectiveness of the Board of Directors. It also recommended encouraging institutional investment in companies to preserve themselves.

The determinants of this study can be considered as a helpful key guide to assisting in making the optimal financial decision for the appropriate leverage ratio for each company. And also reach it by using the lowest costs to contribute to the value of the company. The study is also important for researchers as they can take advantage of the results and methodology of this study to do more research. In future studies, other non-available variable characteristics of Board of directors and Ownership can be inserted and inspected to create a better conception of the capitalist structure of Palestinian companies, such as female number, non-executive directors, qualifications, experience and independence of the board of directors and audit committee.

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