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Initial Findings into the Financial Impact of Corporate Governance: Evidence from Palestinian Listed Companies

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Abstract

Purpose: This empirical research investigates the link between corporate governance mechanisms and financial performance among non-financial companies listed on the Palestine Exchange (PEX) from 2010 to 2020. The study focuses on key governance variables such as board characteristics, audit committee effectiveness, and ownership concentration, using Return on Assets (ROA) as the main performance metric. The aim of this study is to evaluate the relationship between corporate governance mechanisms and the financial performance of non-financial firms listed on the Palestine Exchange (PEX).

Design/methodology/approach: A quantitative methodology and panel data approach were used. The study investigates board characteristics (size, gender diversity, and meeting frequency), audit committee effectiveness, and ownership concentration. Firm age and financial leverage were included as control variables. Data was collected manually from annual reports and analyzed using STATA software with pooled OLS, fixed effects, and random effects models. The Hausman test was used to select the most appropriate model.

Findings: The results reveal that ROA is significantly and positively associated with gender diversity on board and negatively associated with ownership concentration. Other variables such as board size, meeting frequency, and audit committee effectiveness did not show statistically significant effects.

Research limitations/implications: The study is limited to non-financial companies listed in Palestine and is based on a relatively small sample due to the availability of complete data. Since the study is still in its early stages, the results may not be applicable to all sectors or regions.

Practical implications: These discoveries have substantial implications for policymakers and regulators in developing nations. In similar institutional settings, the potential for a positive impact on business results is present when gender representation and ownership structures are enhanced.

Originality/value: By providing compelling examples that are grounded in the country's distinctive institutional realities, this study contributes to the limited corpus of literature on corporate governance in Palestine

Keywords: Emerging Market, Audit Committees, Corporate Governance, Return on Assets, Palestine Exchange. Gender Diversity

Introduction

In recent decades, corporate governance has become more important in the world of finance, especially after well-known financial crises and company failures These events have underscored the possibility of companies being financially unstable, inefficient, and inadequately managed in the absence of robust governance systems. Today, most people agree that strong corporate governance is necessary for responsibility, transparency, and long-term performance of an organization (Affes & Jarboui, 2023; Cordeiro et, al 2020).

The OECD (2015) says that corporate governance is the way that shareholders, the board, management, and other stakeholders of a business interact with each other. Corporate governance fosters a culture of accountability, transparency, and trust that can develop into financial stability in the long term, provided that the appropriate systems are implemented. These concepts are integrated into the G20/OECD Principles of Corporate Governance, which are universally recognized.

Corporate governance is crucial in Palestine due to structural and limitations, including volatile politics, nascent financial markets, and fragile organizations (World Bank, 2020). Companies operating in unstable economies often function in regions that exhibit significantly greater instability than those in stable economies. This indicates that these companies require effective governance to be operational and function efficiently. In 2009, the Palestine Capital Market Authority (PCMA) established a Corporate Governance Code to address these issues. The objectives were to empower regulators and ensure regional regulations align with international standards. The Palestine Exchange (PSE) has made the market much clearer and more controlled.

In practice, numerous listed companies in Palestine continue to face challenges regarding fundamental elements of corporate governance. Common problems include a lack of independent board members, weak disclosure of financial information, and a high concentration of ownership. Official letters from the Palestine Capital Market Authority (2025) have pointed out repeated cases where firms failed to comply with disclosure rules, such as submitting their annual reports after the deadline. When this happens, the flow of information becomes limited, and the level of transparency in the market decreases. Even though disclosure is not treated here as a separate variable, its absence clearly undermines corporate governance because it reduces transparency and makes accountability harder to achieve. The PCMA has warned companies many times in the last few years for not following disclosure rules, such as those in Securities Law No.12 of 2004.The sample of the current study does not include these companies (Palestine Capital Market Authority, 2023). Nevertheless, these infractions suggest that governance principles must be further fortified.

This paper reports preliminary results from a pilot study of five listed firms in Palestine between 2010 and 2020. The overall population includes 17 non-financial companies, but this stage was designed only as an exploratory step. The findings are therefore indicative and should not be read as final or broadly generalizable.vThis study examines the influence of corporate governance practices on financial performance, highlighting the significance of ownership concentration in emerging markets like Palestine, board characteristics (including size, meeting frequency, and gender diversity), and the effectiveness of the audit committee (encompassing size, independence, and meeting involvement). The study is fortified by using financial leverage and the organization's age as control factors.

Literature Review
The study is predicated on an inquiry that encompasses three principal ideas, elucidating the mechanisms of corporate governance.vAgency Theory (Jensen & Meckling, 1976). It is one of the oldest paradigms in the theory of the firm. It helps resolve conflicts of interest arising from the ownership of shares in publicly traded companies because they can hire independent boards of directors and functional audit committees, hence reducing agency costs.vStewardship Theory, constructed by Donaldson and Davis (1991), is a further theory supportive of this. Put simply, if managers act as stewards, money isn't what drives them most; loyalty and reputation matter a lot.vStakeholder Theory (Freeman, 1984/2010) this theory focuses governance on stakeholders such as employees, creditors, and communities. It supports inclusive and ethical management to improve performance and accountability.

When searching for studies related to governance and its impact on financial performance, we found several studies and literature related to the variables used in our study, such as board size, board meeting frequency, gender diversity, audit committee effectiveness, and ownership concentration. This section will summaries a number of these studies, compare their results, and review the importance of adhering to the rules identified in this research regarding governance. vAmanamah (2024) stressed the moderating influence of firm-specific characteristics, such as age and size, on the relationship between financial transparency and corporate accountability within a broader framework. This research emphasizes organizational-level factors, included as control variables in current research, despite its focus on the quality of financial reporting instead of direct financial performance metrics (e.g., ROA).

Adamu and Ugwudioha's (2024) analysis of Nigerian manufacturing companies indicates that the size and independence of the audit committee have a positive effect on ROA. Their research indicates that strong, autonomous audit teams effectively oversee operations, leading to enhanced financial performance.

Alodat et al. (2023) demonstrated that the proficiency of audit committee members in Jordan contributes to improved business performance, which can be partially linked to increased sustainability disclosure. The findings indicate that the effectiveness of audit committees—determined by independence, experience, and appropriate structure—significantly influences the performance of corporations, particularly among Palestinian listed entities.

Drawing on data for 460 non-financial firms listed on the Amman Stock Exchange from 2014 to 2018, Shatnawi et al. (2021) report that audit committee size, independence, and meeting frequency are positively and statistically significantly associated with financial performance, as measured by ROA and ROE. The results validate the role of effective audit committees in fostering accounting-based performance in underdeveloped countries such as Palestine.Board size keeps coming up in governance studies, though the results aren't perfectly consistent. For Palestinian listed firms, Abdeljawad and Al-Masri (2020) found a clear link between board headcount and profit measures. By contrast, evidence from non-financial companies in France suggests better outcomes when boards sit in the 13–17 range (Boussenna, 2020).

While Almontaser and Fadzil (2018) conducted an analysis of 186 industrial firms listed on the Amman Stock Exchange from 2013 to 2020. found that an increased board size had a strong positive effect on firm performance. Having a larger board of directors facilitates oversight and decision-making, thereby enhancing financial performance. The results show that board size need to be considered an independent variable in this study, especially in growing markets like

Palestine and Jordan. These insights underscore the significance of governance structures in augmenting company performance. Future studies may investigate the relationship within board diversity and financial success to elucidate effective board dynamics.

Studies on the number of board meetings have consistently illustrated that active boards can enhance business performance. In the case of Palestinian listed firms, Al-Masri and Abdeljawad (2020) reported a clear link between meeting frequency and profitability, highlighting its importance in emerging markets.

Likewise, Al-Daoud et al. (2016) analyzed companies on the Amman Stock Exchange and found that firms whose boards met more often tended to achieve stronger financial results, since regular meetings allow directors to tackle daily issues, share perspectives, and take timely decisions. The latest study from Nigeria indicates a positive correlation between regular board meetings and firm performance; however, it is noteworthy that board size did not demonstrate a similar effect (Jehu et al, 2022).

Several studies have examined the role of gender diversity on boards and its effect on firm performance. Kabara et al. (2022) investigated non-financial firms in a developing country and found a positive link between ROA and gender diversity, stressing that diverse boards improve accountability, innovation, and decision-making. Similarly, Awad et al. (2023) conducted an analysis of 354 non- financial enterprises in the GCC, revealing that firms with mixed-gender boards achieved higher profitability. This finding holds significance for contexts like Palestine, where organizational structures are in the process of development. Studies from Palestine supports this perspective. Dwaikat et al. (2021) indicated that a modest representation of women on boards correlates positively with ROA, implying that gender diversity introduces novel viewpoints and improves stakeholder confidence.

Cordeiro et al. (2020) reports international evidence that more diverse boards tend to be more open, make better decisions, and pay closer attention to sustainability. In the Omani setting, Bawazir et al. (2021) examine 86 non-financial firms and find positive associations between gender diversity, audit committee size/characteristics, financial leverage, and ROA. Taken together, these studies point to the value of internal governance arrangements, especially board composition and the audit committee's design—in supporting firm performance.

The literature on ownership concentration remains uncertain. In Palestine, Shumali and Abuamsha (2022) reported that when ownership is held mainly by managers, large shareholders, or foreign investors, stock performance often improves. At the same time, they noticed that foreign ownership sometimes reduces performance when measured by market-to-book ratios. In addition, Talalwah et al, (2024) reached a different result, showing that family ownership can harm firm outcomes, while institutional and government ownership did not have a significant role. Evidence from Egypt adds another dimension.

Mostafa (2025) found that institutional ownership helps strengthen audit committee effectiveness, whereas managerial ownership weakens it. The above differences illustrate that ownership concentration operates differently according to the market environment and the proprietors of the shares. It is evident that the results of previous studies are not always consistent, particularly in countries with emerging markets. Findings across literature do not converge—while certain governance factors are linked to better outcomes, other studies detect only weak or negative ties. Such divergence strengthens the case for further, context-specific work in Palestine, where governance arrangements are still taking shape. This study will examine the effect of characteristics which include board size, frequency of board meetings, gender diversity, audit committees' effectiveness, and ownership concentration on company performance within the Palestinian context. This review of prior research provides the foundation for the present study's hypotheses, which aim to test the impact of these governance mechanisms on firm performance in the Palestinian context.

Theoretical Framework and Hypothesis Development

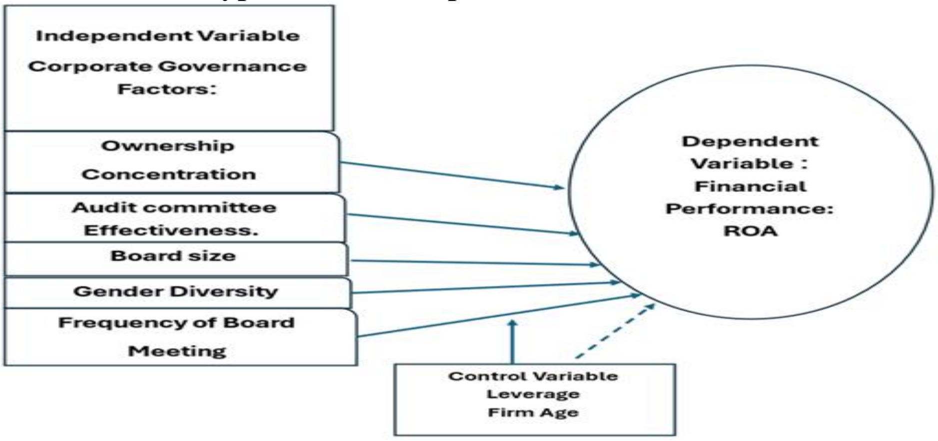

Figure 1: Theoretical Framework

Hypothesis development

H1: Ownership concentration has a significant impact on the financial performance of Palestinian listed firms.
H2: There is a significant relationship between board size and the financial performance of Palestinian listed firms.
H3: There is a significant relationship between Gender diversity on the board of directors on the financial performance of Palestinian listed firms.
H4: Frequency of board meetings has a significant impact on the financial performance of Palestinian listed firms.
H5: The effectiveness of the audit committee has a significant impact on the financial performance of Palestinian listed firms.

Empirical Research Model and Variables Measurements

To investigate the relationship between ROA and the variable selected from Corporate Governance, the following model is used in this study:
Model: ROA
$ROA\_it = \beta_0 + \beta_1(BS\_it) + \beta_2(GD\_it) + \beta_3(NOM\_it) + \beta_4(AC\_it) + \beta_5(OWNC\_it) + \beta_6(LEV\_it) + \beta_7(AGE\_it) + \varepsilon\_it$
Different estimation models were tested, including Pooled OLS, Fixed Effects, and Random Effects. Based on the Hausman test results, the Random Effects model was selected as the most appropriate fit for the data. The following table illustrates how these variables are measured based on commonly used formulas, and the abbreviation of each variable within the above model.

Table 1: Measures of Research Variables

Variable	Measurement	Variable type	Symbol
Return on Assets	Net Income / Total Assets	Dependent	ROA
Board size	Total number of board members	Independent	BS
Gender Diversity	Percentage of female members on the board	Independent	GD
Number of board meeting	Total number of board meetings held during the year	Independent	NOM
Ownership Concentration	Cumulative Sum of owned shares over 5%	Independent	OWNC
Audit committees Effectiveness	Composite score (0–5) based on five indicators (see below)	Independent	AC
Leverage	Total Debt/ Total Equity	Control	LEV
Firm Age	Current year − Year of establishment	Control	AGE

Note: Audit Committee Effectiveness Criteria
1. Existence of Audit Committee
2. Independence from Management
3. Compliance with IPPF
4. Implementation of Audit Plan
5. Disclosure of Meetings
1 if the criteria are present
0 if the criteria are Absent
Total score 0-5

Method

Research Design

The relationship between corporate governance practices and financial performance among listed non-financial firms in Palestine between 2010 and 2020 is investigated in this study using a quantitative research methodology. To capture the dynamic effects of governance variables on performance across time and firms, a panel data design was utilized. All businesses listed on the Palestine Exchange (PEX) with complete and accessible data were included using the census sampling method.

Data Collection and Sampling Criteria

The secondary data for this study were collected from company websites, PEX corporate governance disclosures, and annual financial reports. A dataset appropriate for empirical analysis was created by manually extracting and organizing all financial indicators and governance variables.

Data processing

The study's variables were acquired manually from corporate websites, governance filings, and annual financial reports. The dataset was created by organizing and coding financial indicators and governance variables collected from non-financial companies listed on the Palestine Exchange (PEX) between 2010 and 2020.

The data includes ROA as independent variable and the dependent variable are Board size, frequency of board meeting, Gender diversity (ratio of female in board of director, ownership concentration (shareholders owning more than 5%) and Audit committees' effectiveness and the control variable are leverage

(calculated by debt / equity) and firm age (calculated throw current year minus the year of establishment).
To measure the audit effectiveness, we use five binary indicators (Existence of Audit Committee, Independence from Management, Compliance with IPPF Implementation of Audit Plan, Disclosure of Meetings) Each indicator was scored 1 if present and 0 if absent, the result in total score ranging from 0 -5.
The data was prepared for analysis using STATA software.

Findings

Descriptive Statistics

The descriptive analysis reveals a high ownership concentration (65.9%), low gender diversity (9.9%), and an average ROA of 7.9%. The board typically comprises nine members and is convened five times annually. The mean result for the auditing committee indices was 1.42. The business was 21 years old and had an average leverage percentage of 0.338 (debt/equity).

Table2: Descriptive Statistics

Variable		Mean	Std. Dev	Min	Max
Return on assets (ROA)		7.9%	6.3%	0%	23.4%
Gender Diversity on Board		9.9%	14.9%	0	40%
Ownership Concentration		65.9%	20.3%	18%	93%
Board Size (members)		9.07	3.18	5	15
Board Meeting Frequency (annual)		5.31	1.34	1	7
Audit committees Effectivenss		1.42	1.03	0	4
Leverage (Debt/Equity Ratio)		.338	0.349	0	1.302
Firm Age (Years)		21.2	4.75	11	31

Correlation Analysis

A Pearson correlation analysis was executed to evaluate both the direction and the magnitude of the association between governance characteristics and corporate performance, particularly (ROA). The findings demonstrate a substantial negative relationship between concentration of ownership and ROA, with a significant positive relationship among diversity in gender and ROA.

Table 3: Correlation analysis between Governance Variables and ROA

Variables	Correlation with ROA (r)	Significance
Gender Diversity	0.576	P < 0.01
Ownership Concentration	-0.627	P < 0.01

Regression Analysis

The regression analysis further confirms the statistical Gender diversity has a positive and substantial effect on ROA, but ownership concentration has a negative and significant effect on it. Other variables such as board size, audit committee effectiveness, Leverage and firm age showed no significant impact on the model.

Table 4: Regression analysis

Variable	Effect on ROA	Significance
Gender Diversity	Positive	Statistically significant ($p < 0.01$)
Ownership Concentration	Negative	Statistically significant ($p < 0.01$)
Board Size	Minimal	Not significant
Audit Committee Effectiveness	Minimal	Not significant

Discussion

The study's findings provide important new information about how corporate governance and financial performance relate to one another in Palestine's distinct institutional and economic setting. The results show a strong positive link between gender diversity on corporate boards and financial performance (measured by ROA). On the other hand, ownership concentration has a strong negative link with ROA. These findings are consistent with prior empirical research and theoretical predictions. The positive link between gender diversity and return on assets (ROA) shows that more people are realizing how important women are in making board decisions. This supports the assertions of Cordeiro et al. (2020) and Dwaikat et al. (2021), who emphasize the benefits of gender-inclusive boards regarding strategy and governance. Kabara et al. (2022) further substantiated the function of diversity as a financial driver, revealing that gender-diverse boards correlated with elevated ROA in developing nations.

The results strongly support greater inclusion to enhance transparency and foster long-term value creation in the Palestinian context, where women's involvement in governance remains limited.

As a result, this study contends that reducing ownership concentration and promoting board diversity are essential for strengthening the effectiveness of audit committees in Palestine. It further proposes legislative measures aimed at improving transparency standards, encouraging active shareholder participation, and safeguarding the true independence and professional competence of audit committee members. In addition, future research could explore possible moderating factors—such as industry sector or family ownership—to provide a deeper understanding of how governance mechanisms influence organizational performance in the Palestinian context.

Conclusion

The financial performance of the listed non-financial firms in Palestine from 2010 to 2020 was examined in this study in relation to the practices of corporate governance. The analysis showed that board gender diversity is positively and significantly linked to better financial performance, while ownership concentration has a negative effect.

Other variables, such as board size, meeting frequency, and audit committee effectiveness, did not show statistically significant relationships with ROA. The slight positive trend in audit committee effectiveness suggests that further studies might help clarify its role in the local context. These results align with theories such as agency and stewardship theory, which explain the importance of diverse and well-structured governance in improving firm outcomes. In a developing market like Palestine, where governance is still evolving, these insights may guide reforms and policy updates.

Future research could look at other governance factors, like CEO duality or board independence, and examine their effects across industries. Understanding these dynamics may help companies and regulators improve performance through better governance structures.

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