Impact of Corporate Governance Quality on the Cost of Equity Capital: Evidence from Palestinian Firms

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Abstract
The Study examines the Impact of Corporate Governance Quality on the cost of equity capital of Palestinian listed firms over the period of (2010-2016) Corporate Governance Quality measured by examining the extent of compliance with corporate Governance " best Practices , cost of equity calculated using the capital asset pricing model "CAPM" approach . A total of 19 listed companies were investigated to analyze the relationship between the two variables for the period "2010-2016"Using regression technique, this study finds that corporate governance quality has a reducing effect on cost of equity capital.

Keywords: Corporate governance quality, cost of capital, cost of equity , Palestine Exchange.

1- INTRODUCTION
Separation of ownership and control creates information asymmetry between shareholders and managers. Information asymmetry leads to moral hazard and adverse selection problems, which increase shareholders exposure to agency costs, agency costs represent the risk that self-interested managers would involve in activities that may increase the uncertainty of future cash flow (Jensen & Meckling,1976)

Given the detrimental effect of agency costs, a firm needs to have robust Corporate Governance Mechanisms to reduce the adverse selection and moral hazard problems. Investors are willing to take larger positions in firms share. The positive attitude of investors lead to higher demand for the firm`s securities, which raises the current prices of firm`s share and reduce the cost of equity capital (Diamond & Verrecchia,1991). In addition, shareholders may be willing to accept a lower risk premium, which reduce cost of equity capital.

The prime objective of Corporate Governance is to ensure protection of the interest of all stakeholders of a company, responsible decision making at the board level communicated transparently on a timely basis to all those concerned give equity providers greater confidence in a company in turn.

In developed markets, this has been proven by regulators, governments, and independent institutions. The theme of current worldwide corporate governance has been influenced by reports issued by Cadbury Committee (1992),Greenbury Committee (1995) and Hampel Committee (1998). Several corporate governance codes and recommendations has emerged on the basis of these reports and are practiced in different parts of the world.

The cost of equity capital plays an important role in a firm`s financing and operations decisions and accordingly influences a firm`s behavior. Therefore, the link between corporate governance quality and cost of equity is important to be identified. According to (Waliuddin et al. ,2017), if company`s perceived riskiness affected by corporate governance quality , then the companies which undergo corporate governance should benefit in terms of lowering cost of equity.

Extent literature investigating the impact of corporate governance quality is scares ; therefore, a systematic pattern of relationship cannot be established (Chen et al.,2009). However, these studies, albeit limited, did observe that market participants reward firms having sound corporate governance in the form of lower equity financing cost.

Corporate governance is even more important for emerging and less developed markets-Palestine is no exception. Palestine code of Corporate Governance became effective in 2009 by the Palestine Capital Market Authority (PCMA). Code addresses five fundamental aspects of the audit committee, general committee meeting, shareholders’ compatible rights, corporate management, auditing and disclosure and transparency.

The primary aim of this study is to investigate whether corporate governance quality has any effect on firm cost of equity capital in Palestinian listed firms over the period of (2010-2016). The relationship between corporate governance and cost of equity has been extensively examined in developed and emerging markets. However, to the best of the researcher`s knowledge, no empirical studies have examined the effect of the corporate governance on the cost of equity capital neither before or after the issuance of code of corporate governance. Hence, investigating the influence of adopting governance code by Palestinian firms on the cost of their equity helps in filling the knowledge gap that seems to be significant. In addition to providing an insight into the relationship between different variables, the current study may draw the attention of the issue to financial managers and policy maker and to help them in making rational financial decision. It may help them to assess the to identify the shortcomings of the current corporate governance code and to improve the market. The study aims to answer the following research questions:

What is the impact of CGQ on the cost of equity capital ?
What is the impact of company size on cost of equity?
What is the impact of company liquidity on cost of equity
What is the impact of company profitability on cost of equity?

2- Literature review

2.1 Corporate governance in Palestine.
The governance structure for financial regulation and supervision in Palestine falls under the Jurisdiction of two Authorities: the Palestine monetary Authority and Palestine capital Market Authority, PMA was established in 1995 as independent public institution to assist in maintaining the stability and effectiveness of Palestinian financial system through prudential regulation and supervision in line with international best practices. The Palestine capital Market Authority was established in 2005 as regulator for the non banking financial sector. the Palestine Capital Market Authority overseas and regulate the securities Market, insurance companies and real-estate institution. In 2009, each Authority issued its own code of good Corporate Governance in Palestine applies to all firms with securities listed on the Palestine Exchange, the Palestine Monetary Authorities corporate governance code for Banks applies to the banking sector the two codes are largely based on international standards. Both codes contain mandatory requirements that firms must adhere to along with additional guidelines representing good practices that are encouraged but not required. the Palestine capital Market Authority code only (Hassan & Hijazi,2015).

The Palestine Capital Market Authority`s code addresses five fundamental aspects of the Audit committee, general committee meeting, shareholders compatible rights, corporate management Auditing and disclosure and transparency.

Empirically, there have been little researches undertakes about Corporate Governance in Palestine, researchers as (Qubbaja,2008) (Abdelkarim & Ijbara, 2010) studies the impact and relation of Corporate Governance on financial Performance in Palestine

2.2 Cost of equity Capital
The cost of equity capital is the rate of return investors require for taking risk to invest. The cost of equity capital is the expected return and reflects the investor`s perception on a firm`s riskiness of cash flow (Witmer & Zorn,2007)

Theoretically, the cost of equity capital is often used in two sitivated, first, it is a key input in capital budgeting decisions. It indicates the required rate of return a potentially under taken project because managers can only invest until the marginal project`s return exceeds the cost of capital. The higher the cost of equity the more costly it is for the firm to finance its project and the less access to capital firm has. Second, the cost of equity capital is used to discount future cash flow to calculate present value of the firm.

2.3 Corporate Governance Quality and cost of equity
One channel by which better Corporate Governance enhance firm value is through its effect on the cost of equity when shareholders finance firms; they face a risk that the firms profit will not come back to them as dividends. The higher the risk they face, the higher risk premium they will demand, and therefore the firms cost of capital is likely to increase (Bozec & Bozec, 2010)

Corporate governance arrangement such as better and more timely information, disclosure, independent members on the board and Audit Committee, and effective executive compensation, are expected to reduce firm`s cost of capital in several ways. First, strong corporate governance serves as a monitoring device to manager`s or controlling shareholders actions. Actions and thus contributes to lowering the extraction of private benefits meanwhile, by imposing a higher cost for extraction, Corporate Governance is also expected to reduce the risk of such expropriation and hence to reduce the required rate of return (Chen et al., 2009). Second, strong Corporate Governance, in terms of a higher level of transparency and quality of information flow, may serve to decrease information asymmetries between firm and its outside shareholders (Verrecchia,2001). This in turn, reduces the uncertainty of a firm`s future cash flows and facilitates the estimation of risk. Third, better disclosure reduce external monitoring born by outside investors. It follows that when outside investors can monitor managers or controlling shareholders more cheaply and effectively, they will demand a lower required rate of return (Armstrong et al.,2013)

2.4 Previous Studies
(Ema et al., 2017) examined how a firm`s corporate Governance relates to the cost of equity capital in listed Indonesian manufacturing companies during the period (2009- 2012). The results showed that there is significant relationship between voluntary disclosure and firm`s cost of equity capital.

(Zhe et al.,2017) examined the impact of firm-level CG on cost of equity and cost of debt for 22 developed countries. The study found that good CG are consistently associated with lower cost of debt with various model specifications.
(Moss, 2016) examined the influence of earning managed and corporate governance on the cost of equity in listed companies in Thailand. The study revealed that companies with higher proportion of board independence, Audit Committee financial expertise and board interlocking are likely to have lower cost of equity capital.

(Iwona, 2016) analyzed the impact of disclosure of the information on the cost of equity capital measured through capital asset pricing model. The result revealed that the expected rate of return (cost of equity) dropped from 33% in October 2008 to 28% in November 2008, which shows that there was an impact on cost of equity due to new appearance.

(Wisudanto&Djoni, 2016) examined the effect of disclosure, ownership structure and earnings announcement lay toward the cost of equity on companies listed on Indonesia stock exchange during 2012-2014. The dependent variable in this research is cost of equity capital that measured by (capital asset pricing model), while independent variables are disclosure, public ownership, managerial ownership, control variables used are a market to book value ratio, leverage, ROE.

The results showed that earning announcement lay have a significantly positive effect towards the cost of equity capital, while disclosure and public ownership have significantly negative effect towards the cost of equity capital.

(Peiyi, 2015) investigated the impacts of firm – level governance mechanisms on the cost of capital in the Canadian market. The study used the firm’s weighted Average cost of capital as a measure of the firm’s cost of capital. The study found that corporate Governance mechanisms can effectively reduce firm’s cost of capital because of its ability to a align the interests between management and shareholders.

(Eid, 2015) examined the impact of information asymmetry on the cost of capital, for listed companies in Palestine Exchange. The results showed significant and very weak relationship between information asymmetry and cost of equity capital.

(David &Plans, 2014) analyzed the effect of mandatory of international financial reporting adoption by Spanish firms in 2005 on the cost of equity using sample of listed Spanish companies during 1999 to 2009. The study found that Spanish listed companies show a significant reduction in their cost of equity after a mandatory adoption in 2005.

(Moeinadin et al, 2013) aimed to provide evidence about impact of corporate governance mechanisms on financial decisions and cost of equity firms listed in Tehran Stock Exchange, the study revealed significant negative relationship between the corporate governance and cost of equity and cost of debt.

(Inge, 2013) examined the link between corporate social responsibility and cost of equity with a global sample consisting 13553-firms year observations from 31 countries. The study indicated that cost of equity capital relationship is weaker in more stakeholder-oriented countries and that no significant relationship exist in developing and emerging countries.

(Faizul, &Thankom, 2009) investigated the influence of firm-level CG on the cost of equity to firms in Bangladesh, the results found that CG quality is positively associated with cost of equity measured by capital assets pricing model.

(Zulkufly, 2012) investigated the impact of CG on the cost of equity of Malaysian public listed firms over period 2003- 2007. CG quality is assessed using CG Index consisting six categories. The study found that CG has reducing effect on cost of equity, so firms having higher CG quality seem to enjoy lower cost of equity.

(Zulfiqar et al., 2009) examined the impact of CG as measured by CG Index on the expected cost of equity capital using (CAPM) approach. A total of 114 listed companies for period 2003 to 2007. The study found a negative relationship between managerial ownership and board size with the cost of equity, and a positive relationship between board independence, audit committee independence and CG with the cost of equity.

(Ashbaugh et al., 2004) examined governance attributes along four dimensions:

1- financial information quality 2- ownership structure 3- shareholder rights and 4- board structure. The study found that firms reporting less transparent earning have a higher cost of equity , where as firms with more bondholders have a higher cost of equity.

(Emily, 2004) investigated the relationship between voluntary disclosure and the cost of equity in Netherlands between 2005-2007. The results showed that there is a negative relationship between voluntary disclosure and cost of equity, however the result is not significant

3- Hypothesis
Based on the prior research on the influence of corporate governance on the cost of equity capital and the above mentioned arguments, the following hypothesis are formulated:

Ho: Corporate governance quality doesn’t impact the cost of equity capital
Ho: Corporate governance quality impacts the cost of equity capital
4- Data collection and study Methodology

4.1 Data and Sample

The data was taken from Palestine stock exchange for the period (2010 – 2016). Therefore, the data observations were obtained for (84) months as an estimation period. Monthly data for closing stock prices and Market value weighted Index (Al-Quds index) were selected in order to estimate cost of capital and Beta for each security.

Furthermore, the selected companies represent at a total of 19 out of 49 listed companies from different sector in PEX. However, financial and insurance sector are excluded from this research due to their different capital structures and industry characteristics.

4.2 Dependent variable: Cost of equity capital

Various models have been used to calculate the cost of equity, (Ohlson & Beate , 2005) use an Eps and Eps growth model. They have developed a model relating firm price per share with next year’s expected earnings per share . (Claus & Thomas,2001) used model based on the residual income valuation approach which is similar to dividend discount model. (Easton, 2004) Used model referred to abnormal growth model, in which they use actual earnings forecast for 2 years.

The above models are relatively new, but the foundations for the development of calculating cost of equity capital models were laid by (Markowitz,1952)and (Tobin,1958). Since then , various new models have emerged. The CAPM (Capital assets pricing model) which has been used in this study was developed by (Sharpe,1964) and (Lintner,1965) and relates to the cost of equity capital of and individual security to a measure of its systematic Risk (Beta) where:

1- Risk free (rf)
   - It represents the rate of return that generated from putting money as time deposit in the bank. Most banks in Palestine are using London Interbank offering rate (LIBOR) as risk free rate because it is actively used rate in Palestinian money market.

2- Market rate of Return (rm)
   - In this research, Al-Quds market index was selected as benchmarked Palestinian exchange Market (PEX). Accordingly, this research calculated the market rate of return based on monthly percentage changes in market stock prices.

3- Beta ( β)
   - In this research, beta was computed by dividing the covariance of monthly stock returns in relation with the market return of index over (2010- 2016) divided by the variance of stock return in the same period.

\[ \beta = \frac{\text{Cov}(R_i, R_m)}{(R_m)^2} \]

4- The cost of equity can be defined as required rate of return an investor would expect against supplying capital. The expected rate of return has a direct relation with risk. CAPM offers good insight into the concept and calculation of the cost of equity (Mazzotta & Veltri,2014).

4.3 Independent variables: Corporate Governance Quality

Corporate GQ measured by examining the extent of compliance of firms listed at Palestine Exchange (PEX) with corporate governance “best practices” from managerial perspective.

In constructing the questionnaire, an already existing questionnaire survey on corporate governance practice from study conducted by (AbdelKarim & Ijbarah, 2010) was relied upon. This study’s questionnaire requested factual information at the beginning. The rest of it is mainly composed of three main parts.

The first part aimed at measuring the shareholder’s rights in terms of receiving timely information and equitable treatment. The second part is about transparency and disclosure. The third part aims to measure the boards of director’s efficiency and effectiveness, as well as their attendance, contribution, qualification. 19 companies responded to the questionnaire.

Sample companies were classified into two groups, companies with high degree of compliance (High Quality) with code of corporate Governance and companies with low degree of compliance (low Quality) with code of corporate governance. This parameter is formed of 10 factors that are highly related to CG and they are:

1- Shareholders are provided with adequate information about meeting
2- Shareholders priority subscription rights are protected
3- Enough information about Shareholder’s ownership
4- Disclosure about Best practices
5- Financial statement disclosure
6- Better disclosure about the board of directors activities
7- Qualified independent directors
8- Separating the CEO from the board chairman position
9- Formal evaluative of board of directors
10- Formal CEO evaluation
Based on the above criteria, Sample companies which get 6 or above out of 10 are classified as companies with high level of compliance (High corporate Governance quality) and companies which get less than 6 are classified as companies with low level of compliance (low corporate governance quality).

4.4 Control variables
We use control variables for aspects which could also affect the cost of equity: size, profitability and liquidity generated by firms.

The size of company, as suggested by (Christine & Marlene, 2001) is measured using the logarithm of assets. This variable should exhibit a negative link with the cost of equity as larger companies are deemed less at risk than smaller ones.

Expected profitability is measured by such indicators as Expected Growth in earning per share. Since the firms with the best profitability prospects should be perceived by the shareholders as less risky than those with lower profitability expectations, we hypothesized an inverse relationship between expected profitability and cost of equity.

Finally, the firms liquidity is measured using (current assets \ current Liabilities). This variable should theoretically exhibit a negative link with the cost of equity as companies with more liquidity are deemed less risk than those with problems of liquidity, all else being equal.

4.5 Regression Model:
Regression model for analyzing the impact of corporate governance quality and a set of control variables on the cost of equity is used, In line with (Klapper & Love, 2004), (Qubbaja, 2008) the quality of corporate governance has been estimated by the use of the following equation:

Corporate Governance Quality = \( f(\text{Shareholders Right, transparency and disclosure, Boards of Directors and Directors efficiency}) \)

The theoretical framework of corporate governance measurement has been shown in the above equation. These variables have been used as a proxy for corporate governance quality, and collectively in calculation of the corporate governance score for each company.

The cost of equity has been calculated using CAPM. The equation used in the calculative as follows:

\[ K_e = R_f + \beta (R_m - R_f) \]

Where \( K_e \) = cost of equity, \( R_f \) = risk free rate, \( R_m \) = market rate and \( \beta \) = beta.

Sine our objective is to measure the impact of corporate governance quality on a company’s cost of equity. The later is dependent variable while the various aspects of corporate governance quality (degree of compliance) have been used as independent variables. Since there are a number of factors that influence the cost of equity, the study has been used control variables, namely size (log of total assets), liquidity (current assets \ current Liabilities). The multiple regression is used to measure the impact of independent and control variable on the cost of capital for listed firms in Palestine between (2010-2016).

The model of this study as follows:

\[ K_e (Cost of equity capital) = \beta_0 + \beta_1 \text{ Corporate Governance Quality (degree of compliance)} + \beta_2 \text{ Size (Log of total assets)} + \beta_3 \text{ Liquidity (current assets \ current Liabilities)} + \beta_4 \text{ (profitability)} + \]

5. Empirical results
5.1 Descriptive Statistics
The descriptive statistics of both dependent and independent variables employed in the study are presented in Table 1.

| Table 1 Descriptive Statistics for corporate governance (CGC) and other variables |
|---------------------------------|---------------------------------|---------------------------------|-------------------------------|---------------------------------|
|                                 | N     | Minimum | Maximum | Mean  | Std. Deviation |
| CGC                             | 19    | 3       | .9      | .568  | 2001           |
| SIZE                            | 19    | 391691  | 870692732 | 1.01E8 | 2.117E8        |
| Log size                        | 19    | 12.8782 | 20.5848 | 16.731200 | 2.0649340    |
| Liquidity                       | 19    | .670    | 4.130   | 2.07589   | 1.070533      |
| Cost of equity                  | 19    | -.04547-|.06660  | .0097474 | .02616197     |
| Profitability                   | 19    | -.025560-|.162717 | .03887968 | .045927905    |

The table above shows summarized descriptive statistics for the study sample of 19 companies across the years period from (2010-2016). The results showed that corporate governance quality(independent) ranged from 0.3 to 0.9 with average 0.568, the size of company ranged from 391691 to 870692732 with average 101000000, and it measured by the natural logarithm to enter in the regression model. According the Liquidity, the average
was 2.076 with maximum 4.130 and minimum 0.670. cost of equity (Dependent) ranged from -0.045 and 0.0666 with average 0.0097. Finally, the profitability was ranged from -0.0256 to 0.163 with average 0.0389. the variables size, Liquidity, and profitability are assumed as control variables.

5.2 Correlation

5.2.1 Correlation Table

<table>
<thead>
<tr>
<th>Cost of equity</th>
<th>CGQ</th>
<th>Log size</th>
<th>Liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>-.879**</td>
<td>.000</td>
<td>-0.575**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.575**</td>
<td>.957</td>
</tr>
<tr>
<td>N</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Log size</td>
<td>Pearson Correlation</td>
<td>-.013-</td>
<td>-.018-</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.957</td>
<td>.941</td>
<td>.010</td>
</tr>
<tr>
<td>N</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Pearson Correlation</td>
<td>.575**</td>
<td>-.581**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.010</td>
<td>.009</td>
<td>.042</td>
</tr>
<tr>
<td>N</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Profitability</td>
<td>Pearson Correlation</td>
<td>-.758**</td>
<td>.652**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.003</td>
<td>.810</td>
</tr>
<tr>
<td>N</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
</tbody>
</table>

The Table above summarizes the correlations between all dependent, independent and control variables under study. The table shows negative and significant relationships between the cost of equity and corporate governance quality, Liquidity and profitability.

5.3 Regression

5.3.1 Coefficient of Determination Table

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>dimension0</td>
<td>.914a</td>
<td>.835</td>
<td>.788</td>
<td>.01205637</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), profitability, log size, corporate governance quality, Liquidity
b. Dependent Variable: cost of equity

The table above shows that the coefficient of determination for the estimated regression model is 83.5%, this is the percentage of variation in cost of equity explained by predictors (independent and control variables). The remaining 16.5% of variation can be explained by other variables that do not included in this model.

5.3.2 ANOVA Table

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>.010</td>
<td>4</td>
<td>.003</td>
<td>17.689</td>
<td>.000a</td>
</tr>
<tr>
<td>Residual</td>
<td>.002</td>
<td>14</td>
<td>.000</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.012</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), profitability, log size, corporate governance quality, Liquidity
b. Dependent Variable: cost of equity

The table above shows that the F-value of ANOVA table is 17.689 which is significant at 0.05 level(P-value<0.05), this indicates that we reject the hypothesis that all variables entered in the model are not needed, so we can conclude that our regression model fits the data will.
Table 5
Coefficients*

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.082</td>
<td>.042</td>
<td>1.932</td>
<td>.074</td>
</tr>
<tr>
<td></td>
<td>CGQ</td>
<td>-.091</td>
<td>-.020</td>
<td>-.695</td>
<td>-4.458</td>
</tr>
<tr>
<td></td>
<td>Log size</td>
<td>-.001</td>
<td>.002</td>
<td>-.041</td>
<td>-.293</td>
</tr>
<tr>
<td></td>
<td>Liquidity</td>
<td>-.002</td>
<td>.005</td>
<td>-.075</td>
<td>-.399</td>
</tr>
<tr>
<td></td>
<td>profitability</td>
<td>-.200</td>
<td>.093</td>
<td>-.351</td>
<td>-2.155</td>
</tr>
</tbody>
</table>

a. Dependent Variable: cost of equity
b. P-value of Kolmogorov-Smirnov Test of normality of residuals is 0.853

The Estimated regression Equation:
Cost of equity = 0.082 – 0.091*CGQ – 0.001*logsize – 0.002*Liquidity – 0.2*profitability

The results of table above show that there is significant negative relationship between CGQ and the cost of equity (P-value=0.001<0.05), the estimated regression coefficient value indicates that one unit increase in CGQ makes the cost of equity to decrease by 0.091 unit.

The results of table above also show that there is significant negative relationship between Profitability and the cost of equity (P-value=0.049<0.05), the estimated regression coefficient value indicates that one unit increase in Profitability makes the cost of equity to decrease by 0.2 unit.

From the other hand, the results show that there are no significant relationships between both log (size of firm) and the Liquidity and the cost of equity (P-values > 0.05).

The values of variance inflation factors(VIF) that appeared in the table indicate that there is no multicollinearity problem between the independent and control variables since all VIF values <10. Also the P-value of Kolmogorov-Smirnov Test of normality of residuals is 0.853>0.05 indicates that the model residuals are normally distributed.

6. Conclusion and further research
This paper has examined the impact of corporate governance quality on firms cost of equity of 19 listed firms in Palestine Exchange over the period of 2000-2016. Corporate governance quality is measured by examining the extent of compliance of firms listed at Palestine exchange with corporate governance best practices. The analysis investigates the link between the quality of corporate governance and the cost of equity, using control variables relating to parameters of profitability, liquidity, and company size.

Regression results indicate that firms having high quality corporate governance practices have lower cost of equity. As regards to the control variables, liquidity and company size don't furnish a statistically significant contribution to determination of the cost of equity.

In line with expectations, however, the cost of equity shows a negative link with expected profitability.

Notwithstanding the findings, the current study suffers from following limitations which potentially respect opportunities for future research.(1) This study examines Palestinian listed firms only, future studies may investigate the impact of corporate governance quality on the firms cost of equity under different environments.

(2) Corporate governance quality index was limited due to non availability of data from published sources on all aspects of corporate governance. The study leaves rooms for further resources on the topic by including more variables in corporate governance quality index and calculating cost of equity using other variable model.

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