

The Board of Directors and Firm Performance: Evidence from Palestinian Listed Firms

Hisham Madi*
Faculty of Economics and Administrative Sciences, Islamic University of Gaza, Palestine
* E-mail of the corresponding author: hmadi@iugaza.edu.ps

Abstract
The aim of this study is to examine the effect of board of directors characteristics on firm performance by firms listed on Palestine Exchange for the financials year 2001. Accounting performance measures including return on assets and return on equity are used to proxy firm performance. Characteristics of board of directors are represented by board independence, size, frequency of meetings, leadership structure and diversity. Ordinary Least Squares regression results indicate that board diversity has a negative and significant association with firm performance. However, remaining characteristics have insignificant effect on firm performance. This indicates that the result is not in the line with agency theory.
Keywords: Board of directors, Firm performance, Agency theory, Palestine Exchange
DOI: 10.7176/RJFA/13-12-04
Publication date: June 30th 2022

1. Introduction

The corporate board of directors plays an active role in company's affairs (Merendino & Melville, 2019). The greater role of board of directors (BOD) in firms is associated with being as an essential mechanism for mitigating the agency problem that arises between shareholders and management (Vieira, 2017; Salehi, Tahervafaei & Tarighi,2018; Puni & Anlesinya, 2020). BOD is responsible for the direction, supervision and leadership of a firm. In addition, BOD has a monitoring and control function (Mardnly, Mouselli & Abdulraouf, 2018; Dalwai , Basiruddin & Rasid, 2015). The board is in charge of the auditing process and hires the auditor (Al-ahdal, Alsamhi, Tabash & Farhan, 2020). It is argued that firms with good BOD are more likely to show higher shareholder value because of higher cash flow and reduced cost of capital (Mardnly et la., 2018; Puni & Anlesinya, 2020; Vieira, 2017; Paniagua, Rivelles & Sapena, 2018). Thus, it seems that better firm performance is considered as one of the main benefits of adopting sound corporate board of directors (Reguera-Alvarado, Fuentes & Laffarga, 2017; Shahwan, 2015; Gaur, Bathula & Singh, 2015; Bukair & Rahman, 2015), and therefore, on behalf of shareholders, BOD is responsible for deciding on the structure of BOD that may enable them to maximize the value and benefits of shareholders (Kao, Hodgkinson & Jaafar, 2018; Fernández & Tejerina 2020; Gaur et al., 2015).

The association between BOD and firm performance is explained by different theories. Agency theory has been employed extensively in prior research to explain the link between BOD and firm performance (Salehi et al.,2018; Puni & Anlesinya, 2020; Paniagua et al., 2018; Kao et al., 2018; Merendino & Melville 2019). Fama and Jensen (1983) argue due to the separation between ownership and control, an agency-relationship between shareholders and executive managers exist. This in turn will lead to contractual hazard between shareholders and executives (Williamson, 1979,1981). Another theory employed in prior research investigating the relationship between BOD and firm performance stockholder theory. Freeman (1983) indicates that the management of corporations should consider the interests of all stakeholders in the decision-making process. Hence, to mitigate the expropriation of resources by managers, the firm should deal with its stakeholders fairly, and the organization management should benefit all stakeholders (Mardnly et la., 2018; Kao et al., 2018).

In addition to theoretical debates, the empirical results also are inconclusive. The empirical findings on the relationship between BOD and firm performance have shown mixed results using different BOD attributes including the composition of BOD, size CEO duality and financial experience (Al Farooque, Buachoom & Sun 2020; Merendino & Melville, 2019; Kao et al., 2018; Bukair & Rahman, 2015; Mardnly et la., 2018; Puni & Anlesinya, 2020; Salehi et al.,2018; Vieira, 2017; Fernández & Tejerina 2020; O'connell & Cramer 2010; Ibrahim & Samad, 2011). For instance, Merendino & Melville (2019) and Bukair and Rahman (2015) report higher percentage of independent directors and higher number of directors on board are negatively associated with firm performance whereas Kao et al., (2018) find proportion of independent directors and small board size are associated with greater firm performance. For the board meetings, while the Christensen, Kent & Stewart (2010) show negative relationship between board meetings and firm performance, Puni & Anlesinya, (2020) find frequency of board meeting has a positive effect on firm performance. Empirical literature on the separation between CEO and chairman roles also lacks consistency. In particular, separation of CEO and chairman roles has a positive effect on firm performance (Kao et al., 2018) or negative effect (Al Farooque et al., 2020) or no effect (Puni & Anlesinya,2020).

The majority of prior research on BOD and firm performance focuses mainly on developed countries including UK, US and other Western countries (Fernández & Tejerina 2020; Merendino & Melville, 2019; Kao et al., 2018; Vieira, 2017; Christensen et al., 2010). Recently, more attention has been paid to the impact of BOD attributes and firm performance in developing countries (Mardnly et la., 2018; Puni & Anlesinya, 2020; Bukair & Rahman, 2015; Salehi et al.,2018; Al Farooque et al., 2020). The is because unavailability of published data and corporate governance guidelines and regulations are underdeveloped (Puni & Anlesinya, 2020; Mardnly et la., 2018).

This study has a number of contributions. First, this study explores the structure of BOD in Palestinian firms listed on Palestine Exchange (PEX). Second, it examines the association between BOD structure and firm performance of firms listed at PEX. Third, firms listed at PEX operate firms with a different culture and in a distinctive legal and institutional framework and Palestine-Israel conflict, which may have a significant on BOD attributes-firm performance relationships (Zaid, Wang & Abuhijleh, 2019). Therefore, this study not only identifies the BOD characteristics and their impact on firm performance, but also determines how these characteristics influence the effectiveness of the decision-making process of BOD and in turn, firm performance. Fourth, in addition, examining the applicability of the most prevailing theoretical framework, agency theory and stockholders theory, in a Palestinian context provides valuable insights into the validity of the theory and this would add a new dimension to the literature. Finally, this study contributes to the literature on gender diversity by identifying gender diversity on BOD structure and explaining the influence of gender diversity on firm performance. However, gender diversity was neglected by previous studies conducted in developing countries particularly, in the Arab World.

This study is aims to achieve the following objectives: first, to identify the BOD characteristics of firms listed at PEX; Second to investigate how BOD characteristics affect board functioning and in turn firm performance. These characteristics include independent directors, size, frequency of meetings, finical experience, gender diversity and CEO duality.

2. Literature review and Hypothesis development

2.1 Board Independence

Agency theory argues that independent directors would perform their tasks to monitor managerial decision because they have incentives to develop reputations in decision control (Kao et al., 2018; Puni & Anlesinya, 2020). Non-executive directors also known as independent directors are generally considered as experts who can add onto the corporate board their knowledge, experience and expertise which in turn will increase firm performance (Haniffa & Cooke 2002; Mardnly et la., 2018). Independent directors, therefore regards as a monitoring mechanism as they encourage and ensure that executives' activities to the benefit and interest of shareholders (Al Farooque et al., 2020), and thus conflict of interests between owners and executives are harmonized and mitigated (Salehi et al.,2018). Merendino and Melville (2019) report a significant relationship between independent directors and firm performance. Fernández & Tejerina (2020) find the proportion of independent directors shows positive and significant impact with return on assets. Similarly, Kao et al., (2018) document independent directors have a significant and positive effect on firm performance measured by accounting measure. However, in France, Cavaco et al., (2016) report a significant destructive consequence of independent directors on firm performance. Moreover, Bukair and Rahman (2015) establish a negative association exists between outside directors and firm performance of a sample of 40 Islamic banks operating in Gulf Cooperation Council countries. On the other hand, Borlea, Achim & Mare (2017) and Rachdi and Ameur (2011) report that higher presence of independent directors does not have any impact on financial performance. Considering the stakeholder and agency perspectives and prior findings of research, the related hypotheses for the effect of independent directors on firm performance are developed as follows:

H1: Independent directors on Board have a positive impact on firm performance.

2.2 Board Size

With regard to board, stakeholder theory suggests that an increase in the board members will improve the degree of stakeholders' representation, and no individual or small group of people would dominate decision made by the board (Bukair & Rahman, 2015). Since board of directors acts on behalf of shareholders, it considers as an essential internal control mechanism over management activities. A well-structured board with resendable and optimum number of directors is more likely to monitor management effectively (Kumar & Singh 2013). Therefore, board size affects the effectiveness of the board and thus, improve decision-making process (Merendino & Melville, 2019). Furthermore, large board size is believed to be composed of experienced directors with wide range of experiences which is expected to enhance firm performance (Tornyeva & Wereko 2012; Puni & Anlesinya, 2020; Al Farooque et al., 2020). However, the agency theory argues that a large board has the tendency of losing coordination and having communication problems (Jensen, 1993; Kholeif, 2008) and higher agency cost (Kholeif, 2008). Therefore, a large pool of directors is likely to decrease board's monitoring

process (Ahmed, Hossain & Adams 2006; Merendino & Melville, 2019). Empirically, Tornyeva and Wereko (2012), Al Farooque et al., (2020) and Kholeif, (2008) show a large board size has a positive impact on firm performance. However, using a sample of Taiwanese listed firms, Kao et al., (2018) find small board size is positively associated with financial performance. Similarly, Merendino and Melville, (2019) report a negative association between board size and firm performance. Bukair and Rahman (2015) reveal board size has no effect on firm performance in a sample of 40 Islamic Banks from Gulf Cooperation Council countries. Hence the following hypothesis is developed:
H2: Board size has a positive impact on firm performance.

2.3 Board Meetings

Board meetings are argued to enhance monitoring and supervisory functions of board (Ntim & Osei 2011). Number of board meetings help directors to control management activities and thus decisions resulting from board meetings are effective in mitigating conflict of interest and agency cost then frequency of board meetings will translate into principal's value maximization (Mishra & Kapil 2017; Rashid, 2018). Furthermore, board meetings enable directors evaluate and improve strategies (Puni & Anlesinya, 2020), and tackle any problem and bring more sources (Nasser, 2019). Referring to prior research, using 38 listed Ghanaian firms, Puni and Anlesinya (2020) indicate that frequent of board meeting impacts firm performance positively. In Saudi Arabia, the study by Nasser (2019) reports that board meetings lead to better firm performance. Buachoom (2018), Christensen et al., (2010), Al Farooque et al., (2020) and Mishra and Kapil, (2018) document frequency of board meetings is linked to an improvement in firm performance. However, Bhatt and Bhattacharya (2015), Rashid (2018) and Ahmad Haji and Mubaraq (2015) reveal no relationship exists between board meetings and firm performance. This is because Outside directors who are not involved in the day-to-day running of the company are left with limited time to ask executive management vital questions thereby limiting the monitoring role, increasing the agency cost and reducing corporate performance (Puni & Anlesinya, 2020). On the other hand, Fernández and Tejerina (2020) find frequent board meetings are negatively associated with firm performance. They conclude that board meetings are related to additional costs included cost of managerial time, travel expense and directors and hence, such costs can negatively affect the performance. Based on the discussion above, the following hypothesis is developed:
H3: Board meetings have a positive impact on firm performance

2.4 Board Financial Experience

Skills and financial experiences of the board's directors play an important role in discharging their role. Effective monitoring and supervision of board require its members possess sufficient expertise in accounting, finance and auditing so that they can independently evaluate the different issues (Salehi et al.,2018; Kallamu & Saat 2015). When the members of the corporate board thoroughly understand their responsibilities and have the experience and knowledge in accounting, auditing and finance, they can be more conversant with financial and operational reports and issues that enable them to discharge their other oversight duties (Al-Mamun et al., 2014; Chaudhry, Roomi & Aftab 2020). According to stakeholder theory, professional and experienced directors can connect to diverse groups of stakeholders in a better manner, and make sure that their interests are not compromised (Gaur, Bathula & Singh 2015) and help firm dives strategies to deal with divergent groups of stakeholders (Chaudhry et al., 2020). Boards with highly qualified people provide for ability and expertise necessary for effective decision-making process (Tejerina & Fernández 2021). Chaudhry et al., (2020) report that financial and monitoring expertise of board members positively affect firm performance. Gaur et al., (2015) argue that directors with finical experience are able to improve financial performance. Tejerina and Fernández (2021) and Salehi et al., (2018) reveal that professional directors are associated with enhanced performance. Furthermore, financial expertise of audit committee is positively connected with higher financial performance (Al-Mamun et al., 2014), lower level of earning management (Badolato et al., 2014), higher quality of financial reporting (Abbott et al., 2004) and improved interna control oversight (Beasley et al., 2009). Therefore, the following hypothesis is developed:
H4: Board financial experience has a positive impact on firm performance

2.5 Board Gender Diversity

Board gender diversity refers to the presence of female directors on the corporate board. Women directors are argued to be better educated and more likely to have business degrees (Bennouri et al., 2018), and possess knowledge, experience and skills which in turn enhance board effectiveness (Zaid, Wang & Abuhijleh, 2019). Barako and Brown (2008) report that higher proportion of female directors on board may bring a diversity of ideas to board discussion. Agency theory argues that board diversity increases board's ability to monitor management actions (Bennouri et al., 2018), this is because female directors pay more attention to monitor and oversight managers' actions (Fernández & Tejerina 2020). Prior studies including Bennouri et al., (2018),

Ahmadi Nakaa and Bouri (2018) and Green and Homroy (2018) and Vieira, (2017). reveal a positive and significant relationship between female directors and firm performance. However, Fernández and Tejerina (2020) and Zaid et al., (2019) find insignificant impact of female directors on firm performance and corporate social responsibility disclosure, respectively. Thus, the following hypothesis is constructed:
H5: Board gender diversity has a positive impact on firm performance

2.6 Board Leadership Structure

Leadership structure refers to where the role of Chief Executive Officer (CEO) and chairman is separate. In the light with agency theory, combination of CEO and board chairman hinders transparency and accountability (Puni & Anlesinya, 2020), thus creating ineffective supervision and increasing firm's agency problems (Salehi et al., 2018). Non-dual leadership structure may bring various skills, knowledge and expertise between chairman and CEO (Merendino & Melville, 2019). However, dual leadership structure creates a tempting situation for the CEO to pursue self-interest at the expenses of shareholders and stakeholders (Zaid et al., 2019). Furthermore, when the CEO leads and manages the firm, the role on independent directors becomes "hypothetical" (Rechner & Dalton 1989). Consequently, CEO duality may damage the board independency (Dalton et la., 1998).

Li, Pike, and Haniffa (2008), and Said et al., (2009) argue that segregation of duties of CEO and Chairman is more likely to improve the monitoring quality. Similarly, Wang et al., (2012) report that the firm performance is improved when the CEO is not the chair of the board. However, Salehi et al., (2018) and Puni and Anlesinya, (2020) find that CEO duality has no impact on firm performance. Moreover, Merendino and Melville, (2019) reveal that non-dual leadership structure and dual leadership structure do not differ on their effect on firm performance. On the other hand, Duru Iyengar, and Zampelli (2016) find CEO duality has a negative impact on firm performance. Additionally, Zaid et al., (2019) show that dual leadership structure is negatively and significantly associated with CSR disclosure. Thus, the following hypothesis is developed:
H6: Board non-dual leadership structure has a positive impact on firm performance

3. Research Design and Methodology

3.1 Sample and Data Collection

The data used in this study consists of all the listed firms on Palestine Exchange (PEX). The total number of listed firms in the PEX at the end of 2021 is 47. After scanning the annual report of listed firms, 10 firm were dropped from the sample du to unavailability of data related to study variables. Thereby, the number of firms that made up the final sample was reduced to 37. They are representing 79% of the total listed firms. The study covers the financial year of 2021. Annual reports of the firms are used to collect the data for the study. The annual reports are downloaded from the Palestinian Securities Commission.

3.2 Variable Definitions

Dependent Variable: the dependent variable in this study is firm performance. Consistent with Gaur et la., (2015), Kallamu and Saat (2015), Mardnly et al., (2018) and Merendino and Melville (2019), this study employed return on assets (ROA) and return on equity (ROE) as measurement for firm performance.

Independent variables: to examine the effect of board characteristics on firm performance in Palestinian listed firms, the current study employs the most important key characteristics of corporate board members include: board independency, size, meeting frequency, financial experience, leadership structure and board diversity. Board independency is measured by the per centage of independent directors of the board over the total number of the board members. Board size is calculated by the total number of board members. The number of the meeting s of corporate board is used as a proxy for the board meeting frequency. For board financial experience, a count of financially qualified directors is used. A director is considered to be financially qualified if he/she has accounting and auditing experience, work experience as investment bankers, financial analysts, or any financial management roles and multiple directorships. Leadership structure is measured by using a dummy variable which took a value of 1 if the role of CEO and chairman are separate and 0 otherwise. For board diversity, the proportion of female directors over the total number of board members. A number of control variables related to firm performance is included in this study. Firm size is measured as the natural logarithm of total assets. Ratio of total liabilities to total assets is used as a proxy for leverage. Finally, this study employed the size of audit firm i.e., Big 4 to proxy the audit quality.

3.3 Model Specification

Ordinarily Least Squares (OLS) is used to examine the effect of board characteristics and firm performance (Vieira, 2017; Ahmad Haji & Mubaraq, 2015; Christensen et al., 2010; Bukair & Rahman, 2015; Kao et al., 2020). The regression model constructed based on dependent, independent and control variables employed in this study. Therefore, the regression equation is developed as follows:

$ROAit = \beta0 + \beta1\ BIND + \beta2\ BSIZ + \beta3\ BMEET + \beta4\ BEXP + \beta5\ BLED + \beta6\ BDIV + \beta7\ FSIZ + \beta8\ LEV + \beta9$

AUDITQ+ ε.
ROEit =β0 + β1 BIND + β2 BSIZ + β3 BMEET + β4 BEXP + β5 BLED + β6 BDIV + β7 FSIZ + β8 LEV + β9 AUDITQ+ ε.

Where ROA is return on assets, ROE return on equity, BIND is proportion of independent directors, BSIZ measured by number of board members, BMEET is frequency meeting of board of directors, BEXP is proportion of financial experience directors, BLED dummy variable is measured by 1 if the CEO and Chairman are separate and 0 otherwise, BDIV measured by proportion of female directors on the board, FSIZ is measured by calculating the natural logarithm of total assets, LEV is measured by measured by total debt over total assets and AUDITQ dummy variable is measured by 1 if the audited firm is big-four and 0 otherwise.

4. Empirical Results and Discussion

4.1 Summary of Descriptive statistics

Table 1 and Table 2 present the results of descriptive statistics for continuance and dichotomous variables respectively. As shown in table 1 the mean of ROA and ROE are 0.0163 and 0.0317 respectively. The mean is ranging from -0.1723 and 0.1253 for ROA, and for ROE from -0.3321 and 0.1662. It is clearly obvious that the financial performance for Palestinian firms listed on PEX is relatively low. The average level of board independence is 0.99 and rang varying from 1 to 0.833. Denoting that, firms are having higher proportion of non-executive directors on their corporate's board. In terms of board size, the number of board directors ranges from 13 to 5, with a mean of about nine directors. Concerning board meetings, the mean of board frequency meetings is nearly 6 meeting a year. The highest number of meetings is 9 meetings while, the lowest level of meetings is 6 meetings. As for the board financial experience variable, Table 1 shows that the number of directors with financial experience on corporate board ranges from 1 to 0, with mean of 0.91. Turning to board diversity, the mean value of female directors on board of directors is 0.061, this suggests that board diversity among the Palestinian Listed firms is quite low. Furthermore, while the highest presence of a female directors on corporate board represents a third of board directors’ members, other corporates’ boards have no women representation on them. As for the control variables, table 1 indicate that mean value for size and leverage (with logarithms) of firms listed on Palestine Exchange is 7.91 and 0.52 respectively.

Table. 1 Descriptive statistic for continuance variables

	Mean	Median	MAX.	MIN.	S. D
ROA	0.0163	0.0185	0.1253	-0.1723	0.0600
ROE	0.0317	0.0185	0.1662	-0.3321	0.1178
BIND	0.9906	1	1	0.8333	0.0337
BSIZ	8.8108	9	13	5	2.2090
BMEET	5.7027	6	9	6	0.1952
BEXP	0.9103	1	1	0	0.1952
BDIV	0.0619	0	0.3333	0	0.0972
FSIZ	7.9100	7.8904	9.7641	5.9141	0.8789
LEV	0.5230	0.5492	0.9253	0.0778	0.2777

Concerning the descriptive results for dichotomous variables, table 2 shows that majority of Palestinian listed firms separate the role between CEO and chairman. With respect to audit quality, 78% of Palestinian listed firms are audited by big4 auditing firms, whereas, 22% are audited by non-big4 firms. This indicates that Palestinian firms are concerned to report high quality financial reports.

Table. 2 Descriptive statistics for dichotomous variables

		NO. of Firms	Percentage	NO. Obesrv.
Leadership Structure	Separate	28	**76%**	37
	Duality	9	**27%**	
Audit Quality	Big4	29	**78%**	
	Non-Big4	8	**22%**	

4.2 Correlation analysis

Table 3 presents the results of correlation analysis of all variables used in this study. Correlation coefficients between all are small indicating multicollinearity problem does not exist in the study. However, the correlation between ROA and ROE is high, this because the measurement of the two variables behaves in a similar fashion in the regression models

4.3 Multiple Regression Analysis

The Ordinary Least Squares (OLS) are used to examine the impact of board attributes on firm performance. OLS regression results are presented in table 3. It is reported in the table that F ratio is 4.478 and 3.661 for ROA and

ROE model respectively. The results statistically support the significance of the model. The R square (0.55) for ROA indicate that independent variables explain 55.9% of the variance in firm performance, while the independent variables in ROE model explain 55 % as reported by R square.

Board Independence
As reported in table 4, board independence (BIND) coefficient is insignificantly positively correlated with firm performance measured by ROA and ROE. Thus, H1 is rejected. This finding is in the line with those of Borlea et al., (2017) and Rachdi and Ameur (2011) suggesting that independent directors on corporate board do not enhance firm performance. This result means that independent directors on the board of listed Palestinian firm are less likely to monitor management activities and therefore the board independence is for appearance only to be compiled with corporate governance code.

Board Size
H2 predicts that there is a positive effect of board size on firm performance. However, empirical results indicate that board size (BSIZ) is insignificant in determining firm performance. Hence, H2 is not supported. The finding implies that as the number of board members increases there might be some might be some minimal communication and coordination problems in large corporate boards as predicted by the agency theory. The result is consistent with Bukair and Rahman, (2015) who concluded that higher number of directors on corporate board decreases board's monitoring process.

Table. 3 Correlation Matrix

	ROA	*ROE*	*BIND*	*BSIZ*	*BMEET*	*BEXP*	*BLED*	*BDIV*	*FSIZ*	*LEV*	*AUDITQ*
ROA	1										
ROE	0.919	1									
BIND	-0.105	-0.171	1								
BSIZ	0.289	0.374	-0.346	1							
BMEET	0.057	0.215	0.043	0.075	1						
BEXP	-0.220	-0.194	-0.096	0.142	-0.107	1					
BLED	0.063	-0.026	-0.326	0.049	-0.271	0.150	1				
BDIV	-0.439	-0.383	0.182	0.237	0.313	0.197	-0.137	1			
FSIZ	0.222	0.356	-0.286	0.725	0.201	0.098	0.132	0.225	1		
LEV	-0.300	-0.036	-0.133	0.208	0.223	0.074	0.061	0.278	0.568	1	
AUDITQ	0.414	0.333	-0.148	0.315	-0.016	-0.168	-0.161	-0.145	0.387	0.055	1

Note: ROA is return on assets, ROE return on equity, BIND is proportion of independent directors, BSIZ measured by number of board members, BMEET is frequency meeting of board of directors, BEXP is proportion of financial experience directors, BLED dummy variable is measured by 1 if the CEO and Chairman are separate and 0 otherwise, BDIV measured by proportion of female directors on the board, FSIZ is measured by calculating the natural logarithm of total assets, LEV is measured by measured by total debt over total assets and AUDITQ dummy variable is measured by 1 if the audited firm is big-four and 0 otherwise

Board Meetings
In contrast with what was expected, this study found that a positive insignificant association between frequent meeting of board of directors (BMEET) and ROA and ROE. Therefore, H3 is not supported. This finding could be explained by the argument that managerial costs of board meetings seem to outweigh the benefit of such meetings, hence, frequency of board meetings is not linked to shareholder value maximization (Fernández & Tejerina, 2020). This finding is consistent with the findings obtained by Bhatt and Bhattacharya (2015), Rashid (2018) and Ahmad Haji and Mubaraq (2015) who found that frequent board meetings limit the monitoring role of board of directors and which in turns will lead to increase conflict of interest and agency cost.

Board Financial Experience
H4 suggests that the presence of higher proportion of directors with financial and management experience will improve firm performance. The coefficient on board financial experience (BEXP) variable is negative and insignificant. H4 is not supported. The insignificant role of financial expertise of board of directors members is consistent with Kallamu and Saat (2015) who argue that financial experience of directors may not be significant due to the broad definition and ambiguity of financial experience. Therefore, listed companies may appoint directors on their board without considering their specific experience and its relation to a firm's business operations.

Table 4. OLS regression results

	ROA			ROE		
	Coefficient	t	Sig	Coefficient	t	Sig
Constant		-1.639	.113		-1.332	.194
BIND	.153	1.056	.300	.095	.618	.541
BSIZ	.253	1.230	.229	.353	1.620	.117
BMEET	.249	1.778	.087	.337	2.269	.031
BEXP	-.103	-.786	.439	-.091	-.659	.516
BLED	.137	.950	.351	-.009	-.057	.955
BDIV	-.484	-3.263	.003	-.585	-3.725	.001
FSIZ	.304	1.217	.234	.279	1.052	.302
LEV	-.439	-2.616	.014	-.164	-.921	.365
AUDITQ	.203	1.359	.185	.040	.254	.802
Adjusted R Square	0.465			0.400		
F	4.478			3.661		
Sig	0.001			0.004		
R Square	0.559			0.550		

Board Diversity

Contrary with the expectation, this study reported a negative significant association between proportion of female directors (BDIV) on board of directors and firm performance measured by ROA and ROE. Thus, the result does not support H5. This means that presence of female directors on corporate board is likely to decrease firm performance. In the other words, the result indicates that are limitations on female contribution to decision making process on the board of directors. Moreover, this result can be a signal that representation of females on corporate board in business Arab environment is relatively ineffective in strengthening board's monitoring role. In Palestinian listed firms, the existence of women directors on board of directors is having a restricted role in discission-making process because it is a new phenomenon as well as they make up the minority of corporate board members. This result is consistent with findings of Fernández and Tejerina (2020) and Zaid et al., (2019).

Board Leadership Structure

H6 predicts that board leadership structure (BLED), where the role of CEO is separate of chairman, improves the firm performance. However, non-dual leadership structure has insignificant impact on ROA and ROE, implying that non-dual CEO role has no impact on firm performance. Thus, H6 is not supported. The finding is consistent with the results of Bukair and Rahman (2015) and Cavaco et al., (2016) who report that non duality of CEO and chairman have no effect on firm performance. The no impact of non-duality leadership structure on firm performance could be explained by the argument that chairman in of the board of directors in Palestinian listed firms plays predominant role in choosing and appointing the CEO. Furthermore, the combining role of CEO and chairman makes the authority within a firm in the hand of a single person who is involving in daily operating activities of a firm. This allows the CEO to effectively manage corporate board and hence achieve the firm's goal.

Control variables

As for the control variables, the regression models indicate that none of control variables determines the ROA and ROE. Thus, the firm size, leverage and audit quality have no effect on firm performance.

5. Conclusion

The aim of this study is to identify the board of directors characteristics of a sample of 37 firms listed on Palestine Exchange during the financial year ended 2021 and then examine the impact of board of directors characteristics and firm performance. Board of directors characteristics included in this study are board independence, size, meetings, financial experience, leadership structure and board diversity. The OLS regression used to examine the effect of bard of directors characteristics and firm performance measured by ROA and AOE. The statistics results indicate that boards dominated by independent directors have no effect on firm performance. Board size and frequent meetings of directors have no significant impact on firm performance. Further, directors with financial and management experience tend not enhance firm performance. Non-duality leadership structure has empirically insignificant correlated with firm performance. Contrary to the expectation, board diversity has negative and significant association with firm performance. Therefore, the findings show that Palestinian listed firms' performance is not derived by the corporate boards. These results are inconsistent with agency theory that expects board of directors act as mechanisms to monitor corporate management and improves performance. This indicates that corporate governance system adopted by Palestinian listed firms is still at its infancy stage and such firms are practicing the governance system as for appearance rather than add value to the firm.

The findings of the study have several implications. The current study provides new findings related to corporate governance practices and firm performance in a unique developing country like Palestine, where the existing literature in this area is limited. Hence, the finding contributes to knowledge by providing new and original evidence that some current corporate governance mechanisms are not effective in minimizing the agency problem in a developing setting. The results of the study are expected to help policy makers in evaluating the practice of corporate governance system on firm performance in general and how corporate board functions with the context of such governance system in particular. Policy makers can also make use the results of this study to assess whether the implantation of governance code achieve its objective. Further, the outcome of the study would assist managers to identify the best governance practices to attract more investments.

This study has a number of limitations that can provide opportunities for future research. The current study investigates the association between board of directors characteristics and firm performance for year 2021. Further studies should try to have a larger span of time to better understand the long-term relationship between board of directors and firm performance. An additional limitation of this study is that firm performance proxies including market measurement may reflect accurate of corporate performance. Finally, future studies could investigate other attributes of board of directors such as multiple directorships, directors' ownership, and tenure.

References

Abbott, L. J., Parker, S., & Peters, G. F. (2004). Audit committee characteristics and restatements. Auditing: A journal of practice & theory, 23(1), 69-87.

Ahmad Haji, A., & Mubaraq, S. (2015). The implications of the revised code of corporate governance on firm performance: A longitudinal examination of Malaysian listed companies. Journal of Accounting in Emerging Economies, 5 (3), 350-380

Ahmadi, A., Nakaa, N., & Bouri, A. (2018). Chief Executive Officer attributes, board structures, gender diversity and firm performance among French CAC 40 listed firms. Research in International Business and Finance, 44, 218-226.

Ahmed, K., Hossain, M., & Adams, M. B. (2006). The effects of board composition and board size on the informativeness of annual accounting earnings. Corporate governance: an international review, 14(5), 418-431

Al Farooque, O., Buachoom, W., & Sun, L. (2020). Board, audit committee, ownership and financial performance–emerging trends from Thailand. Pacific Accounting Review, 32 (1), 54-81

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

Al-Mamun, A., Yasser, Q. R., Rahman, M. A., Wickramasinghe, A., & Nathan, T. M. (2014). Relationship between audit committee characteristics, external auditors and economic value added (EVA) of public listed firms in Malaysia. Corporate Ownership & Control, 12(1), 899-910.

Badolato, P. G., Donelson, D. C., & Ege, M. (2014). Audit committee financial expertise and earnings management: The role of status. Journal of accounting and economics, 58(2-3), 208-230.

Barako, D. G., & Brown, A. M. (2008). Corporate social reporting and board representation: evidence from the Kenyan banking sector. Journal of Management & Governance, 12(4), 309-324

Beasley, M. S., Carcello, J. V., Hermanson, D. R., & Neal, T. L. (2009). The audit committee oversight process. Contemporary Accounting Research, 26(1), 65-122.

Bennouri, M., Chtioui, T., Nagati, H., & Nekhili, M. (2018). Female board directorship and firm performance: What really matters? Journal of Banking & Finance, 88, 267-291.

Bhatt, R. R., & Bhattacharya, S. (2015). Board structure and firm performance in Indian IT firms. Journal of Advances in Management Research, 12 (3), 232-248

Borlea, S. N., Achim, M. V., & Mare, C. (2017). Board characteristics and firm performances in emerging economies. Lessons from Romania. Economic research-Ekonomska istraživanja, 30(1), 55-75.

Buachoom, W. (2018). How do board structures of Thai firms influence on different quantile levels of firm performance? In Advances in Pacific Basin Business, Economics and Finance. Emerald Publishing Limited. 157-189

Bukair, A. A., & Rahman, A. A. (2015). Bank performance and board of directors attributes by Islamic banks. International Journal of Islamic and Middle Eastern Finance and Management. 8 (3), 291-309

Cavaco, S., Challe, E., Crifo, P., Rebérioux, A., & Roudaut, G. (2016). Board independence and operating performance: analysis on (French) company and individual data. Applied economics, 48(52), 5093-5105.

Chaudhry, N. I., Roomi, M. A., & Aftab, I. (2020). Impact of expertise of audit committee chair and nomination committee chair on financial performance of firm. Corporate Governance: The International Journal of

Business in Society. 20 (4)621-638

Christensen, J., Kent, P., & Stewart, J. (2010). Corporate governance and company performance in Australia. Australian accounting review, 20(4), 372-386.

Dalton, D. R., Daily, C. M., Ellstrand, A. E., & Johnson, J. L. (1998). Meta-analytic reviews of board composition, leadership structure, and financial performance. Strategic management journal, 19(3), 269-290.

Dalwai, T. A. R., Basiruddin, R., & Rasid, S. Z. A. (2015). A critical review of relationship between corporate governance and firm performance: GCC banking sector perspective. Corporate Governance. V15 (1)8-30

Duru, A., Iyengar, R. J., & Zampelli, E. M. (2016). The dynamic relationship between CEO duality and firm performance: The moderating role of board independence. Journal of Business Research, 69(10), 4269-4277.

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

Fernández-Temprano, M. A., & Tejerina-Gaite, F. (2020). Types of directors, board diversity and firm performance. Corporate Governance: The International Journal of Business in Society. 20 (2) 324-342

Freeman, R.E. (1983), "Strategic management: A stakeholder approach", Advances in strategic management, 1 (1) 31-60.

Gaur, S. S., Bathula, H., & Singh, D. (2015). Ownership concentration, board characteristics and firm performance: A contingency framework. Management Decision. 53 (5) 911-931

Green, C. P., & Homroy, S. (2018). Female directors, board committees and firm performance. European Economic Review, 102, 19-38.

Haniffa, R. M., & Cooke, T. E. (2002). Culture, corporate governance and disclosure in Malaysian corporations. Abacus, 38(3), 317-349.

Ibrahim, H., & Samad, F. A. (2011). Corporate governance mechanisms and performance of public-listed family-ownership in Malaysia. International Journal of Economics and Finance, 3(1), 105-115.

Jensen, M. C. (1993). The modern industrial revolution, exit, and the failure of internal control systems. the Journal of Finance, 48(3), 831-880.

Kallamu, B. S., & Saat, N. A. M. (2015). Audit committee attributes and firm performance: evidence from Malaysian finance companies. Asian review of accounting. 23 (3) 206-231

Kao, M. F., Hodgkinson, L., & Jaafar, A. (2018). Ownership structure, board of directors and firm performance: evidence from Taiwan. Corporate Governance: The international journal of business in society. 19 (1)189-216

Kholeif, A. (2008). CEO duality and accounting-based performance in Egyptian listed companies: A re-examination of agency theory predictions. In Corporate governance in less developed and emerging economies. Emerald Group Publishing Limited. 65-96

Kumar, N., & Singh, J. P. (2013). Effect of board size and promoter ownership on firm value: some empirical findings from India. Corporate Governance: The international journal of business in society.

Li, J., Pike, R. and Haniffa, R. (2008), "Intellectual Capital disclosure and corporate governance structure in UK firms", Accounting and Business Research, 38 (2)

Mardnly, Z., Mouselli, S., & Abdulraouf, R. (2018). Corporate governance and firm performance: an empirical evidence from Syria. International Journal of Islamic and Middle Eastern Finance and Management. 11 (4) 591-607

Merendino, A., & Melville, R. (2019). The board of directors and firm performance: empirical evidence from listed companies. Corporate Governance: The international journal of business in society. 19 (3) 508-551.

Mishra, R. K., & Kapil, S. (2018). Board characteristics and firm value for Indian companies. Journal of Indian Business Research. 10 (1) 2-32

Mishra, R., & Kapil, S. (2017). Effect of ownership structure and board structure on firm value: evidence from India. Corporate Governance: The International Journal of Business in Society. 17 (4) 700-726

Nasser, Z. A. (2019). The effect of royal family members on the board on firm performance in Saudi Arabia. Journal of Accounting in Emerging Economies. 10 (3) 487-518

Ntim, C. G., & Osei, K. A. (2011). The impact of corporate board meetings on corporate performance in South Africa. African Review of Economics and Finance, 2(2), 83-103.

O'connell, V., & Cramer, N. (2010). The relationship between firm performance and board characteristics in Ireland. European management journal, 28(5), 387-399.

Paniagua, J., Rivelles, R., & Sapena, J. (2018). Corporate governance and financial performance: The role of ownership and board structure. Journal of Business Research, 89, 229-234.

Puni, A., & Anlesinya, A. (2020). Corporate governance mechanisms and firm performance in a developing country. International Journal of Law and Management. 62 (2)147-169

Rachdi, H., & Ameur, I. G. B. (2011). Board characteristics, performance and risk-taking behavior in Tunisian banks. International Journal of Business and Management, 6(6), 88-97.

Rashid, A. (2018). Board independence and firm performance: Evidence from Bangladesh. Future Business

Journal, 4(1), 34-49.
Rechner, P. L., & Dalton, D. R. (1989). The impact of CEO as board chairperson on corporate performance: evidence vs. rhetoric. Academy of Management Perspectives, 3(2), 141-143.
Reguera-Alvarado, N., de Fuentes, P., & Laffarga, J. (2017). Does board gender diversity influence financial performance? Evidence from Spain. Journal of Business Ethics, 141(2), 337-350.
Said, R., Hj Zainuddin, Y. and Haron, H. (2009), "The relationship between corporate social responsibility disclosure and corporate governance characteristics in Malaysian public listed companies", Social Responsibility Journal, 5 (2) 212-226.
Salehi, M., Tahervafaei, M., & Tarighi, H. (2018). The effect of characteristics of audit committee and board on corporate profitability in Iran. Journal of Economic and Administrative Sciences. 34 (1)71-88
Shahwan, T. M. (2015). The effects of corporate governance on financial performance and financial distress: evidence from Egypt. Corporate Governance. 15 (5) 641-662.
Tejerina-Gaite, F. A., & Fernández-Temprano, M. A. (2021). The influence of board experience on firm performance: does the director's role matter? Journal of Management and Governance, 25(3), 685-705.
Tornyeva, K., & Wereko, T. (2012). Corporate governance and firm performance: Evidence from the insurance sector of Ghana. European Journal of Business and Management, 95
Vieira, E. S. (2017). Board of directors characteristics and performance in family firms and under the crisis. Corporate Governance: The International Journal of Business in Society. 18 (1) 119-142
Vieira, E. S. (2017). Board of directors' characteristics and performance in family firms and under the crisis. Corporate Governance: The International Journal of Business in Society. 18 (1)119-142
Williamson, O. E. (1979). Transaction-cost economics: the governance of contractual relations. The journal of Law and Economics, 22(2), 233-261.
Williamson, O. E. (1981). The economics of organization: The transaction cost approach. American journal of sociology, 87(3), 548-577.
Zaid, M. A., Wang, M., & Abuhijleh, S. T. (2019). The effect of corporate governance practices on corporate social responsibility disclosure: Evidence from Palestine. Journal of Global Responsibility. 10 (2)134-160