

The Effect of Ownership Structure on Financial Performance of Listed Companies in Palestine Exchange (PEX)

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Abstract: ***Purpose:** The purpose of this paper is to report the results of the study carried out to examine the relationship between the Ownership structure on firms' performance of Palestine Stock Exchange (PEX). **Design/Methodology:** This study is cross-sectional and correlation. This study utilizes OLS regression models based on a sample of 32 firms listed on the Palestine Stock Exchange (PEX) during the period of 2008-2016. **Findings:** The study finds that the relation between concentration ownership (own more than 5%) and performance in ROA is negative and significant whereas the relation between institutional ownership and performance in ROA, ROE and TobinQ is negative and significant. **Research limitations/ implications:** the size of the sample is a limitation because the market in Palestine is small and was reduced from 48 firms to 32 firms, and this study does not examine the impact of board sub-committees for Palestinian companies because no data are available from annual reports concerning them, Therefore, further research may want to consider other components of ownership structure variables, such as government ownership.*

Keywords: Ownership structure, firm performance, Palestine

1. Introduction

In the classic principal-agent model, the divergence of incentives whereby managers are prone to pursue their own interests at the expense of shareholder value maximization causes agency problems. The main reasons managers can be anticipated to expropriate shareholders (thus necessitating agency costs) are related to their own job security, status and remuneration; managerial behaviors in this regard are generally linked to company size rather than firm performance. In order to monitor the activities of agents, agency costs are incurred by principals (and overall by the firm, representing a costly burden to general performance) in order to reduce the information asymmetry and assay the level of effort and performance of managers. The most obvious component of agency costs in this regard is monitoring costs arising from gathering information on the behavior and actions of managers. Managers also bear bonding costs, which are difficult for principals to practically observe, which thus result in making efforts at the expense of their own utility and implementing the contractual terms in order to reduce the agency conflict Jensen & Meckling, (1976). Agency theory provides a useful tool for providing insight into the suggestions for corporate governance mechanisms or arrangements that would mitigate the agency problems to enhance the principal returns. It also provides insight into why agents might be rewarded with performance-based incentives in the form of share ownership, and the role of external significant owners in exerting monitoring control in order to mitigating agency problems (Fama and Jensen, 1983; Jensen and Meckling, 1976). Agency problems can be reduced by numerous corporate governance mechanisms in the agency model aiming to align the interests of owners and managers (Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976). Internal governance mechanisms have been explored by numerous studies, particularly regarding board and ownership structures and the ways in which the intrinsic

misalignment between the interests of shareholders and the managers can be aligned in order to improve firm performance. If agency problems resolved it is more likely the shareholders and managers interests are aligned thereby value maximization and better performance.

The mechanisms proposed to reduce agency problems and to increase managerial incentives to align the interests of shareholders and managers. Specifically, the main mechanisms that have used in this study to achieve this aim are; ownership structure (e.g., ownership concentration, managerial ownership, and the Institutional ownership). In addition, The purpose of the current study is to investigate the effect of ownership structure on firms' performance in Palestine, just after the political and economic stability in the country (The political situation is not fully stabilized, as the country is still undergoing political turmoil, however, the beginning of 2008 political conditions were a start to an improving political situation) MEDPRO Report,(2011).

2. Literature Review

2.1 Firms performance

The current study emphasizes on the effect of Ownership structure of firms' performance in Palestine. Much research has been found in Europe on it. First and foremost, the literature on executive compensation in public firms generally uses market-based measures of firm performance, frequently used: Tobin's Q (Bebchuk & Peyer, 2011) and measures of change in shareholder wealth (Hartzell & Starks, 2003). In public firms, both accounting and market-based measures of firm performance add incremental explanatory power when both are included in models of executive compensation (Palmon & Wald, 2006). A wide variety of measures of accounting performance has been used to proxy for firm performance in the compensation literature.(Tosi, Katz, & Gomez-Mejia, 2000), in a meta-

analysis of the CEO pay-performance literature, identify 24 separate measures of accounting performance used, although Return on Equity (ROE) and particularly ROA predominate.

As compare to, the pay-performance relationship in private firms, ROA is used by most studies as the primary performance measure (Michiels, 2013). In the present study, lagged (by one year) ROA is the performance measure used because it is expected that there may be a delay in directors' remuneration adjusting to performance. Bonus payments, for example, may be awarded based on historical firm performance. Inspection of the distribution of ROA revealed the presence of outliers in these variables. To address this, ROA is winsorized at the 5th and 95th percentile, which was reported in the descriptive statistics. Related to the current article, (Daraghma & Alsinawi, 2010) observed the effect of board of directors, management ownership and capital structure on the financial performance of the corporations listed in Palestine securities exchange. Within 2005-2008, 28 Palestinian corporations were selected. The statistical method that has been used in this literature study is (return on revenue; ROR), as a consequence, it demonstrated that management ownership has positive effect on the financial performance. (Iturralde, 2011), the empirical evidence proved that family firms are concerned the relationship between insider ownership and firm performance differs depending on which generation manages the firms.

2.2 The relationship between Ownership Structure and firms performance

The modern understanding of the principal-agent relationship can be traced to the seminal work of Berle and Means (1932). They observed that during the late-19th and early 20th centuries, traditional family ownership had been supplanted as the predominant modus operandi of US business by modern publicly traded companies, and that this had the effect of separating ownership from control of companies. A new class of managers had emerged in control of US firms, meaning that the dispersed small shareholders were effectively powerless. This work was particularly pressing in the context of the 1930s Great Depression, as corporate governance and managerial behavior were key issues in the Wall Street Crash of 1929. Thus from the inception of modern studies of corporate governance, it has been assumed that a latent divergence exists between the interests of shareholders and of managers, and that without proper structure capricious managers can act at the expense of principals, based on the premise that corporate governance fundamentally determines firm outcomes (Berle and Means, 1932).

Agency theory posits that managers are agents of shareholders (principals) and they run the firm on behalf of the owners, thus engaging in a principal-agent relationship. Extensive literature indicates that there is an intrinsic conflict of interest between shareholders and managers because the latter being engaged by the former to serve their own objectives of value maximization. It has been frequently observed that managers diverge from shareholders' interest and reduce and/or appropriate shareholders' wealth for their own interests (Jensen and

Meckling, 1976; Fama and Jensen, 1985; Shleifer and Vishny, 1997; La Porta et al., 1998, 1999).

Agency theory provides deeper analysis of the conflict between shareholders and managers, which provided a framework to explain the reduction of shareholder wealth in the settings of the principal-agent relationship, whereby owners (principals) delegate managers (agents) to run firms on their behalf, leading to agency problems or conflicts since both parties are utility maximizers in their own interests, and the interests of managers often diverge from their contractual obligation of maximizing shareholder returns (Jensen and Meckling, 1976). Grossman and Hart (1986) argued that when the ownership structure of a firm is overly diffused, shareholders are less likely to monitor management decisions closely, because they have less incentive to do so given that the potential benefits of such monitoring are outweighed by the agency costs of monitoring; clearly this situation is likely to undermine performance.

On the other hand, Shleifer and Vishny (1986) argued that when the ownership structure is concentrated, large and controlling shareholders contribute to the mitigation of the agency problems because they have the incentives, motivations and capacity to monitor the managers for the shared benefit of control (i.e. the mutual benefit of all shareholders, whether large or small). Moreover, Demsetz and Lehn (1985) observed that as ownership concentration increases, the degree to which benefits and costs are borne by the same owner increases, hence it can be inferred that large shareholders are more likely to be active in corporate governance to prevent information asymmetry between principals and agents due to their larger stakes in firms due to the greater risk incurred by their larger ownership. Thereby, if agency costs decreased it is more likely shareholders will get higher returns on their shares and more profit.

However, Jensen and Meckling (1976) argued that according to agency theory, major shareholders with high ownership concentration can prioritize their own interests, which can cause agency problems between managers and shareholders. Jensen and Meckling (1976) suggested that managerial ownership can be a solution to this agency problem, circumventing conflicts between management and shareholders by rendering both parties a single entity. Managerial interests can clearly be presumed to achieve greater alignment with those of shareholders with significant managerial ownership. However, Demsetz (1983) cautioned that when managers own a large stake this could lead them to take decisions preferential to their own individual interests as large shareholders rather than in the interests of other (smaller) shareholders (entrenchment effect).

Business organizations in Middle Eastern countries (including Jordan) are characterized by high concentration of ownership, often in the form of family-controlled businesses. In this context and based on the agency perspective outlined above (the managers-shareholders conflict), this study aims to measure the effect of ownership concentration, managerial ownership and the Institutional ownership on firm performance of Palestinian firms listed on Palestine Stock Exchange for the period 2008 to 2015.

Corporate governance and investor protection are lower in Palestine than in the developed countries. Hence, we hope that the findings of this study in terms of ownership structure might add a contribution to the relation between the above mentioned variables and firm performance in a developing country namely Palestine. The following sections review the relationship of the ownership concentration, managerial ownership, and the Institutional ownership on firm performance.

2.2.1 The relationship between Managerial ownership and firms performance

While shareholders are interested in maximizing their returns, managers are concerned with enhancing their personal wealth and their future career opportunities. This will result in a conflict of interest between shareholders and managers, as the former are interested in ensuring that their financial capital is not expropriated or invested in unprofitable projects (Jensen and Meckling, 1976; Fama, 1980; Jensen, 1993). The expropriation may be manifest in three different ways: investment in projects that benefit the managers rather than the interests of the company, manipulation of transfer pricing and management entrenchment. Theoretically, the convergence of interest or the alignment of interest's hypothesis has been suggested as a mechanism to be used to align the interests of managers and shareholders. With regards to the alignment of interests from the agency theory perspective, Sappington (1991) suggests that in order to align the interests of managers with shareholders it is important to create incentives for the managers to increase the value maximization. Jensen and Meckling (1976) state that the incentive of director/managerial ownership is expected to motivate agents to create the total surplus, because as managerial ownership increases the interests of the shareholders and managers become more aligned, thus the incentive for opportunistic behavior decreases. In other words, the greater the stake managers have in the firm (i.e. share ownership), the greater the costs they will incur for not maximizing the wealth of shareholders. Hence, aligning the interests between principals and agents resolves for the agency problem and achieves the main goal of the shareholders, which is value maximization, consequently affecting firm performance positively. Shleifer and Vishny (1997) and Becht et al., (2003) stated that managers are not interested only in avoiding the agency problem, but are motivated by other reasons such as their career growth and their reputation. It is well known that managers should consider the importance of their reputation and their image to protect it in order for any further opportunities to work in the future.

Different studies Juhandi et al (2013) This study intends to examine and analyze the effects of internal factors and stock ownership structure on dividend policy and their impacts on company's value and examine the influence of dividend policy on company's value. Internal factors cover free cash flow, company size, debt, asset growth, return on equity and financial risk while stock ownership structure cover managerial and institutional stock ownership. The study involved all of the manufacturing companies listed on the Indonesia Stock Exchange (IDX). There are 164 companies, 55 of which were selected using saturation sampling. The sampling was conducted during the six-year observation

periods from 2005 to 2010 totaling 330 observations (6 x 55). The data were analyzed by applying Smart PLS (Partial Least Square). The results showed that Managerial ownership has no effect on dividend policy but on company's value.

Irshad et al (2015) This unique study has adopted an integrative approach of taking both board effectiveness and ownership structure to measure its effect on firm performance. ownership structure is measured by ownership concentration, institutional ownership, managerial ownership, and firm performance is measured by Marginal Q and ROA. findings of this study showed the adverse effect of ownership concentration and the dual role of CEO on the corporate financial performance. The results have implications for regulatory authorities, directors, and shareholders to take steps to improve the board and ownership structure for better performance.

2.2.2 The relationship between Institutional ownership and firms performance

Institutional investors are capable of monitoring firms and helping to improve corporate governance disclosure (Aggarwal et al., 2011). Agency theory predicts that monitoring is useful in reducing conflicts of interest between directors and investors (Jensen and Meckling, 1976; Solomon, 2010). Chung and Zhang (2011) suggest that institutional investors have a much stronger incentive to protect their investment, especially if the exit is costly. Therefore, the presence of institutional shareholders ensures that a degree of accountability exists between shareholders and top management (Aggarwal et al., 2011). This suggests that the presence of institutional ownership can reduce agency costs.

According to empirical studies, a positive relationship between institutional ownership and firm performance exists, Ongore & K'Obonyo (2011) examines the interrelations among ownership, board and manager characteristics and firm performance in a sample of 54 firms listed at the Nairobi Stock Exchange (NSE). These governance characteristics, designed to minimize agency problems between principals and agents are operationalized in terms of ownership concentration, ownership identity, board effectiveness and managerial discretion. The typical ownership identities at the NSE are government, foreign, institutional, manager and diverse ownership forms. Firm performance is measured using Return on Assets (ROA), Return on Equity (ROE) and Dividend Yield (DY). Using PPMC, Logistic Regression and Stepwise Regression, the paper presents evidence of significant positive relationship between foreign, insider, institutional and diverse ownership forms, and firm performance. Fazlzadeh et al (2011). find institutional ownership has positive significant effect on firm performance, This study is aimed to determine the role of ownership structure on firm performance. Using panel data regression analysis method, the role of variables of ownership structure which includes: ownership concentration, institutional ownership and institutional ownership concentration have been examined for 137 listed firms of Tehran stock exchange within the period 2001 to 2006.

In the Palestine corporate context, the relationship between institutional ownership and firms performance has not yet been examined. Therefore, the current study offers, for the first time, evidence on this particular relationship in Palestine listed firms.

2.2.3 The relationship between Ownership concentration and firms performance

Ownership concentration is higher in developing countries, where investors have less protection (La Porta et al., 1999; Shleifer and Vishny, 1997). This can imply a stronger incentive and ability of principals to monitor agents, reducing managerial opportunism (La Porta et al., 1999; Shleifer and Vishny, 1997). Alchian and Demsetz (1972) argued that the equity of ownership has been suggested as a control mechanism to control managers by shareholders to mitigate agency conflicts within the firm. They state that this internal control mechanism is significant in determining the shareholders wealth, firm objective and the level of discipline of managers. In such a context, a large shareholder appears as the shareholders best way to control and monitor the managers.

Shleifer and Vishny (1986) argued that when the ownership structure is concentrated, large and controlling shareholders contribute to the mitigation of the agency problems because they have the incentives, motivations and capacity to monitor the managers for the shared benefit of control (i.e. the mutual benefit of all shareholders, whether large or small). High concentration of ownership is not necessarily a disadvantage to firm performance. As mentioned previously, shareholders with greater stakes in a company have greater incentive to control and monitor managers or insiders (Holderness, 2003).

However, Jensen and Meckling (1976) with regard to agency theory observed that higher ownership concentration could induce the prioritization of self-interest by large shareholders and the consequent expropriation of firm resources (i.e. wealth), resulting in decreased firm performance. Clearly when there is a higher risk of expropriation there is more incentive for majority/dominant shareholders to avoid information disclosure and such firms are likely to have weak monitoring controls (which facilitate expropriation). The expropriation effect arises because majority shareholders are motivated not only the benefits [they] derived from pecuniary returns but also the utility generated by various non-pecuniary aspects of [their] entrepreneurial activities. (Jensen and Meckling, 1976).

Shabbir et al (2014) The study investigates the relationship between ownership structure, firm performance and dividend policy with respect to Governance perspective of companies listed on Karachi Stock Exchange (KSE). A sample of 45 Non-financial KSE-100 Index listed firms for a period spanning from 2010 to 2013 is taken for analysis of the study. Multiple Regression Models are applied to the panel data to measure the impact of ownership structure on firm performance and dividend policy. The empirical results also exhibit a significant negative relation between ownership concentration. Ongore & K'Obonyo (2011) find the relationship between ownership concentration and government, and firm performance was significantly negative. However, Business organizations in Middle

Eastern countries (including Palestine) are characterized by high concentration of ownership, often in the form of family or companies controlled businesses.

3. Hypotheses Development

Managerial ownership refers to proportion of outstanding shares possessed by management in the company. As discussed earlier, the conflict of interest is created due to separation of ownership between managers and shareholders. Therefore, managerial ownership should lead to more alignment of interest and reduction in agency cost, the result is improved financial performance because managers work best to get incentives linked to their investments (Jensen & Meckling, 1976). On the other side, excessive managerial ownership provokes manager's entrenchment and to enjoying private benefit of control. In this context, commented that there is a union of interests between investors and administrators due to the rises of management ownership, which intern facilitates the organizations to reduce the cost of agency and ultimately increase the firm. On the other hand, Demsetz (1983) argue that there is decline in firm performance due to the increased level of insider ownership.

The hypotheses are as follow:

H1: There is a negative relationship between Managerial ownership and firms performance in Palestine.

According to agency theory, ownership structure should affect the efficiency of monitoring mechanisms. Traditionally, the theory holds that concentrated ownership should mitigate the agency problem (Lee, 2008). Based on the traditional agency theory, the study predicts that ownership concentration positively affects firm performance. (Karaca & Eksi, 2012) Investigating the relationship between ownership structure and firm performance (Istanbul 2005-2008), the results provide that Ownership concentration insignificant effect on Tobin's Q and positive significant effect on ROA.. The hypotheses are as follow:

H2: Ownership concentration has significant positive effect on firm performance.

As discussed before, institutional investors also can be effective owners, because they have the resource and ability to properly monitor management's decisions. It is assumed that firm performance improves as the share of institutional ownership grows, (Shkreta, 2013) Testing the effect of institutional ownership on the financial performance of Real Estate Investment Trusts (USA 2007-2012), the results show Institutional ownership, in levels between 30% and 50%, is accompanied by higher financial returns, represented by ROA and ROE. (Uwuigbe & Olusanmi, 2012). Examining the relationship between ownership structure and the financial performance of firms (Nigeria 2006-2010), the result shows the Institutional ownership has a significant positive impact on the financial performance of Nigerian firms. The hypotheses are as follow:

H3: Institutional ownership has significant positive effect on firm performance.

4. Design of Research

4.1 Sample Chosen

This study consists of all companies listed on exchange Palestine securities with data available on all Corporate Governance of firms and financial variables of interest from the years of 2008 to 2015. Following Demsetz & Villalonga (2001), the researchers combine regulated and non-regulated firms in their sample. This study excluded only firms that have missed data, and this had left them with a final sample of 32 firms out of 48. They transformed variables that have extreme values to reduce the potential effect of outliers on an estimate of coefficients Tabachnick & Fidell, (1996). Table 1 presents the selection measure, and Table 2 shows the distribution of sample companies according to sector classification.

Table 1: Sample chosen

Standards	N
All firms listed on the exchange Palestine securities from 2008 to 31 December 2015:	48 ¹
firms that stopped trading at the market :	2
firms with missed full data about their ownership structures for period of study:	14

¹+ Mean Positive
 -Negative

Table 2: Sample distribution

No	Sector	No. of firms	Percentage
1	Service	7	21.875%
2	Industry	9	28.125%
3	Investment	7	21.875%
4	Banking	5	15.625%
5	Insurance	4	12.5%
	Total	32	100%

4.2 Model

Our econometric model has three equations. The firm financial performance as the dependent variable represented by return on assets (ROA), return on equity (ROE) and Tobin's Q.

Model 1

$$ROA = \beta_0 + \beta_1 MO_{it} + \beta_2 COW_{it} + \beta_3 INSTOWN_{it} + \beta_4 FS_{it} + \beta_5 L_{it} + \beta_6 G_{it} + \beta_7 I_{it} + \epsilon_{it} \dots \dots \dots (1)$$

Where :

ROA: dependent variable (i=Firms, t= Time)

β_0 = Constant

Independent variables are Managerial ownership (MO), ownership concentration (COW) and Institutional ownership

(INSTOWN) . Others variables in the model are control variables, namely, Firm size, leverage, Growth and Industry (dummy variables), and ϵ - Error term.

Model 2

$$ROE = \alpha_0 + \alpha_1 MO_{it} + \alpha_2 COW_{it} + \alpha_3 INSTOWN_{it} + \alpha_4 FS_{it} + \alpha_5 L_{it} + \alpha_6 G_{it} + \alpha_7 I_{it} + \epsilon_{it} \dots \dots \dots (2)$$

Where:

ROE: dependent variable (i=Firms, t= Time).

α_0 = Constant.

Independent variables are Managerial ownership(MO), ownership concentration (COW) and Institutional ownership (INSTOWN). Others variables in the model are control variables, namely, Firm size, leverage, Growth and Industry (dummy variables), and ϵ - Error term.

Model 3

$$Tobin's\ Q = \gamma_0 + \gamma_1 MO_{it} + \gamma_2 COW_{it} + \gamma_3 INSTOWN_{it} + \gamma_4 FS_{it} + \gamma_5 L_{it} + \gamma_6 G_{it} + \gamma_7 I_{it} + \epsilon_{it} \dots \dots \dots (3)$$

Where :

Tobin's Q : dependent variable (i=Firms, t= Time).

γ_0 = Constant.

Independent variables are Managerial ownership(MO), ownership concentration (COW) and Institutional ownership (INSTOWN). Others variables in the model are control variables, namely, Firm size, leverage, Growth and Industry (dummy variables), and ϵ - Error term.

of financial measures such as Tobin's Q (Dwaikat & Queiri,2014; Connelly, 2012; Irshad, 2015, Alkhatib & Harsheh,2012, Shabbir 2014), ROA (Dwaikat & Queiri,2014; Ongore & K'Obonyo, 2011; Ayorinde, 2012; Velnampy, 2013) ROE (Awan., 2012, Hussin & Othman, 2012, Velnampy, 2013, ROI Boyd, 1995; Adjaoud, (2007) and net profit margin Bauer et al., (2004).

5. Variables Measurement

5.1 Performance Variables:

Previously, various measurements have been used in order to examine the firm performance by different studies, (Cochran & Wood, 1984; Ittner & Larcker, 2003). Most of the studies examined the firm performance using a diversity

The above measures can be categorized into two groups: market-based and accounting-based measures. On one hand, Daily & Dalton (2003) suggested that the accounting-based measures consider the current financial performance of the company whereas market-based measures consider the investor perceptions of the company potential performance. Nevertheless, each group has been criticized by different researchers.

(Haniffa & Hudaib, 2006) argued that there is no consensus of measure which can be considered as the best financial performance. Furthermore, they reported that every measure poses strengths and weaknesses, thus, there is no specific measure to be the best proxy for financial performance.

According to agency theory, managers are more likely to misuse the firm assets by working for their own interests leaving less return for the firms. However, accounting based measure such as ROE, ROA and Tobin's Q are directly associated to management's ability to efficiently utilize the firm assets. A lower ROE, ROA and Tobin's Q will indicate inefficiency. Therefore, both of these measurements are essential to view of the measure of the firm performance. In this study ROE, ROA and Tobin's Q have been selected as proxies for firm performance from the accounting based measures.

Return on assets is an indicator of how profit a company is or how efficient is the management as using its assets to generate earning, and is sometimes referred to as Return on Investment. It is calculated by dividing a company net income by its total assets:

$$\text{Return on Assets (ROA)} = (\text{Net Income}) / (\text{Total Assets}).$$

Return on Equity measures the profit of the company by revealing how much profit the company generates regarding to the amount of the money invested by the investor. It is calculated by dividing a company net income by its total equity. It is also known as Return on Net Worth:

$$\text{Return on Equity (ROE)} = (\text{Net Income}) / (\text{Total Equity}).$$

Tobin's Q is the most frequent measure in empirical corporate governance research. Many other studies exploited this measure as the dependent variable in research on the effectiveness of corporate governance mechanisms and Ownership structure of firms' performance. The Tobin's Q ratio is a measure of firm assets in relation to a firms' market value.

$$\text{Tobin's Q} = (\text{Total Market Value of Firm} + \text{Total Liability}) / \text{Total Asset Value of Firm}$$

All the financial information that related to ROE, ROA and Tobin's Q variables were extracted from the balance sheet that provided by annual reports.

5.2 Ownership Structure Variables

5.2.1 Managerial ownership

According to agency theory, the convergence of interests (alignment interest) hypothesis different studies (e.g. Irshad et al, 2015; Juhandi et al, 2013; Davis et al., 1997; Jensen & Meckling 1976; Shleifer & Vishny, 1997) argued that as managerial ownership increases (alignment interest), managers are less likely to transfer the firm resources away from value maximization. They report that increasing the management ownership will affect the firm positively by encouraging the managers to work in the best interest of the firm, which will align the interests of shareholders and managers, resulting in better firm performance because managers personally bear a large proportion of the costs of

their actions. Managerial ownership is defined as the percentage of equity owned by management (Bhagat and Bolton, 2008; Florackis et al., 2009; Mangena & Tauringana, 2007; Weir et al., 2002). Managerial ownership is labeled as (MO) as shown in Table 3 above. The MO was extracted directly from the Palestinian annual reports. In this context, the study will investigate the effect of the managerial ownership on the firm performance.

Table 3: Measurement of Corporate governance and Ownership Structure variables

Variables Labeled	Definition
MO	The percentage of equity ownership held by the management who run the operations of the firm.
COW	Sum of percentage of large shareholders who own more 5%, then take the average is of the years 2008-2015
INSTOWN	The average percentage of shares outstanding owned by institutional investors.

5.2.2 Institutional ownership

Institutional investors are considered to be an essential monitoring device and able to control managers in more depth than small shareholders can (Black, 1992). Large institutional investors with substantial stakes have the power, resources and ability to monitor, as well as stronger incentives to discipline and influence managers' behavior (Coffee, 1991). The UK Corporate Governance Combined Code (2003, p.24) emphasizes the institutional investors' role in corporate governance stating that, "Institutional shareholders should enter into a dialogue with companies based on the mutual understanding of objectives".

Bushee (1998) finds evidence that indicates managers are less likely to cut R&D to reverse an earnings decline when institutional ownership is high. Moreover, investors are found to influence executive compensation Clay, (2000) and Hartzell & Starks, (2003) and to influence board structures. Hsu & Koh (2005), Liu (2006), Charitou et al. (2007) and Cheng & Reitenga (2009) provide some recent empirical studies that examine the association between ownership and aggressive earnings management. They document a negative relationship, which suggests that institutional investors, especially long-term ones, are an effective governance mechanism.

However, Peasnell et al. (2005), using UK data from 1993 to 1996, examine institutional investors, measuring institutional ownership as the number of shares owned by institutional investors over total number of shares outstanding, and find no relation between EM and institutional investors. However, this study will measure institutional ownership (INSTOWN) using the average percentage of shares outstanding owned by institutional investors, as in Liu (2006).

5.2.3 Ownership concentration

As a substantial aspect of the effectiveness of the corporate governance mechanism, different researchers have examined the effect of ownership structure on the firm performance, mostly from the agency theory perspective. Most of these studies start from the argument presented by Berle and

Means (1932), that there are two main features of corporations that may affect firm performance: the dispersion of shares between shareholders and the concentration of ownership. Corporate governance mechanisms differ around the world, which could impact on the relationship between ownership structure and firm performance in different countries in regard to the degree of shareholders' protection. It has been observed that ownership concentration is high in emerging markets (Dwaikat & Queiri 2014, Shleifer and Vishny, 1997; La Porta et al., 1999). Lopez et al. (1998) argue that ownership concentration results from the different degrees of the legal protection for the minority shareholders in every country. In addition, (Ongore & K'Obonyo 2011, Onder 2006) point out that the differences in the political factors; corporate culture and legal structure play an important role in explaining the ownership concentration in the developing countries on the firm performance.

Firms in MENA are characterized by high concentration of ownership. Different studies used different cut-off levels to investigate the impact of the large shareholders based on the provisions and their Stock Exchange listing rules of their country. Based on the PEX classification of large shareholders as those who own 5% or more of a firm. This study will use the aggregate ownership of all large shareholders to investigate the effect of the large shareholders by 5% cut-off level on firm performance, labeled as COW. As shown in table 3, COW is the total percentage of shares that are owned by shareholders who own more than 5% in the company without relying on their identity. The percentage of large shareholders was extracted directly from the annual reports from the period 2008 to 2015.

5.3 Control Variables

Firm size

Different researchers report an ambiguous relationship between the firm size and firm performance (Alkhatib & Harsheh, 2012; Himmelberg 1999; Nenova, 2003. Short & Keasey 1999 and Joh, 2003) argue that larger firms have better opportunity than the smaller ones in creating and generating funds internally and accessing external resources. In addition, larger firms might benefit from economies of scale by creating entry barriers with a positive effect on firm performance. Furthermore, (Jensen, 1986) points out that firm size may be used as a proxy for the agency problem. He reports that managers have motivation to increase the firm size beyond the target which will indicate more power, when the amount of assets under their control is larger. (Fama & Jensen, 1983) and (Boone et al. 2007) argue that as the firm size increases the firm becomes more diversified. This means that larger can explain the natural complexity of the company. Also, it means that larger firms need more advice on the board. In addition, larger firms are correlated with complex operations in order to pursue the company strategies more efficiently. (Serrasqueiro & Nunes, 2008) recommend larger firm sizes to benefit performance. This is because, large firms have better opportunity to raise funds and more diversified strategies. In addition it has wide variety of expertise management. (Black, 2006) elucidated that the firm size positively affects firm performance.

Opposed to this, other researchers e.g., (Nenova, 2003) and (Garen, 1994) reported that large firms are subject to more inspections and scrutiny. Henceforth, it might be lavish for the controlling families to extract private profits (Nenova, 2003). Following, (Agrawal & Knoeber 1996) informed a negative relationship between the firm size and firm performance. They argued that larger firms might not be as efficient as the smaller firms due to reduced control by management over strategic and operational activities as firm size increases. (Garen, 1994) argued that the cost of complying with corporate governance codes requirements will be comparatively low for the larger companies. However, this cost will increase if the companies are subject to public media scrutiny because of high levels of media investigations than the smaller companies. (Garen, 1994). Finally, (Jensen & Meckling, 1976) argued that as the firm size increases the agency costs are likely to increase. The increase of costs is due to the need for more control that resulted from managerial discretion and opportunism. Moreover, the growth of the firm will result in increasing the internal control tools for forecasting and designing. This will elevate the need for aligning the interest of the managers and the shareholders Jensen & Meckling, (1976). In line with previous studies e.g., (Muth & Donaldson, 1998); (Elsayed, 2007); (Al-Matari, 2012) who used TA as a proxy for firm size this study will measure the firm size by using the natural logarithm of total assets (Log TA). Total assets were extracted directly from the balance sheet provided by annual reports.

Leverage

Different researchers have argued that leverage may affect the firm performance either positively or negatively. A positive effect might take place as a consequence for monitoring by lenders. (Jensen & Meckling, 1976) found that leverage play an important role in mitigating agency problem as an internal corporate governance mechanism especially free cash problems. Jensen (1986) argues that increasing the external debt may result in positive effect. Increasing the debt will constrain managerial discretion. Jensen (1986) reports that high levels of debt will discipline the managers to use the company free cash flows for non-profitable investments (opportunistic managers). Since managers are obligated to pay periodic repayments of interest and principal. (Stiglitz, 1985) noted that an effective control of the managerial behavior is mainly implemented by lenders than shareholders. Similarly, (Ross, 1977) argues that increasing the leverage might be a good indicator for the company ability to serve large amounts of debt. Moreover, (Modigliani & Miller, 1963) expect positive association between leverage and the firm performance computed by tax shields. (Agrawal & Knoeber, 1996) argue that firm performance can be improved by using the debt in financing the company due to pursuing the monitoring by lenders.

On the other hand, (Myers, 1977) disputed that high amounts of leverage may affect the firm performance negatively according to the problem of underinvestment due to increasing the leverage will hinder the ability of the company to raise new debt. Therefore, this will result in losing any possibilities to acquire any investment opportunity. Furthermore, (Myers, 1977) and (Stulz, 1988) reported that high levels of leverage will affect the market

value of stocks which will effect in higher financial risk. Moreover, they argued that from the governance viewpoint, high amounts of leverage will impede the firm performance by creating excessive interest and closer monitoring by creditors. With the similar point of view, Andrade & Kaplan (1998) illustrated that the lower the firm leverage the lower the probability of financial distress and firm with higher financial leverage lean to perform worse than firms with lower financial leverage. As Leverage is defined as long term debt to total assets, it was extorted directly from the balance sheet provided by annual reports.

Growth

Consistent with a number of earlier studies (Carcello, 2004; Abbott, 2004 & 2000; Beasley, 1996, Dimitropoulos & Asteriou 2010), the present study controls the effect of company growth. As it is essential to control a firm's pace of development all along of rapid growth, a company may experience pressure to maintain or exceed anticipated growth rates. The pressure to achieve a targeted rate of growth, or alternatively to mask downturns, may create an incentive for management to engage in, EM (Carcello, 2004).

(Skinner & Sloan, 2002) find evidence that growth stocks have significantly greater negative market responses to earnings disappointments than do value stocks. This result implies that growth firms have greater incentives to avoid negative earnings surprises. Furthermore, (Matsumoto, 2002) documents that a rapidly growing firm is more likely to manage earnings. Among other studies that find growth is related to EM are those of (Abdulahman & Ali, 2006; Huang, 2008 and Dimitropoulos & Asteriou, 2010).

Based on (Myers, 1977) and (Gaver, 1995) definition of growth opportunities as the difference between a firm's value and existing assets, this study measures growth (GROWTH) as the market-to-book assets ratio (MTB). MTB utilizes the market value of assets as a proxy for a firm's value and the book value of assets as a proxy for existing assets. A higher MTB represents greater growth opportunities. The information required to populate the variable is sourced from Annual reports.

Industry

(Haniffa & Cooke, 2002, Lim, 2007 and Elsayed, 2007) came across that corporate governance practices vary between industries due to the differences in capital structure, complexity of operations, ownership levels and line of business. In addition, global and economic developments may impact differently on different industries. Furthermore, based on survey by CLSA (2000) in emerging markets, corporate governance standards vary across different industries. Following (Haniffa & Cook, 2002, Foughi, 2011, Mandaci 2010), the industry variable is used as the dummy variable. To avoid the dummy variable trap, one industry is excluded five main economic sectors; banking and financial services, insurance, investments, industry, and services according to PEX classifications. The value of 1 is used if the firm is in the industry or 0 otherwise.

Table 4: Measurement of Control Variables

Variables	Definition
Firm size	Total assets
Leverage	long term debt to total assets.
Growth	The market-to-book assets ratio (MTB).
Industry	The value of 1 is used if the firm is in the industry or 0 otherwise.

6. Results

6.1 Descriptive statistics

Table 5: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	32	-.1943486	.2251992	.0282383	.0655775
ROE	32	-.2830618	.3178167	.0601	.092927
TobinQ	32	.3721267	1.953769	.9857576	.2944754
MO	32	.05	.9	.5061538	.220753
COW	32	.05	.89	.5134426	.221602
INSTOWN	32	.05	.96	.4936777	.2568677
logasset	32	6.105274	9.444857	7.663554	.7114962
Leverage	32	.0155414	1.061415	.4055357	.2689653
Growth	32	-.2445706	.4284663	.0617829	.1210384

Table 5 above reports the descriptive statistics of the dependent variables. The table shows that the ROA ranges from a minimum of -.1943 to a maximum of .2251 with the Mean of .02823 for the overall sample. The ROE ranges from a minimum of -.2830 and maximum of .3178 with the Mean of .0601. The TobinQ ranges from a minimum of .3721 to a maximum of 1.953 with Mean of .985.

Table 5 depicts the descriptive statistics for the various types of ownership for the full sample. Managerial ownership (MO) among Palestinian firms ranges from 5% to 90%, with an average of 50%. Managerial ownership has been suggested as a potential incentive to align the interests of managers with those of principals and thus to maximize firm value Jensen & Meckling, (1976). The average shows that the percentage of managerial ownership is higher in Palestine than in developed markets. The mean of ownership concentration (COW) is 51%, with a minimum of 5% and a maximum of 89%. The average of Institutional ownership (INSTOWN) is 49%, and they own a minimum of 5% and a maximum of 96%.

Table 5 presents the descriptive statistics of the control variables. logarithm of total assets (Logassetl) range from a minimum of 6.105274 to a maximum of 9.444857 with an average of 7.663554. The average of debt ratio (leverage) and Growth is .4055357 and .0617829 respectively. The industry variable is used as the dummy variable. To avoid the dummy variable trap, one industry is excluded. Two main economic sectors; Financial and non-financial. The frequently of Financial sector is 176 and the percentage is 68.75% and the frequently of non-financial sector is 80 and the percentage is 31.25%.

6.2 Coefficients and significant paths

Table 6: Ownership structure variables results

	ROA	ROE	TobinQ
MO	-.0229375 (0.326)	-.0341236 (0.318)	.0931625 (0.464)
COW	.0836368 (0.007)***	.037389 (0.409)	.1051255 (0.525)
INSTOWN	-.1176008 (0.000)***	-.1025379 (0.005)***	-.3599897 (0.006)***
Firm size	.0515887 (0.000)***	.0648065 (0.000)***	.0126486 (0.727)
Leverage	-.1462769 (0.000)***	-.1098255 (0.000)**	.043825 (0.639)
Growth	.1046219 (0.001)***	.2477164 (0.000)***	-.0988783 (0.573)
Industry	.0096053 (0.275)	.0056656 (0.658)	.0467782 (0.331)

Note. ***P < 0.01; ** P < 0.05; *P < 0.1.

As shown in Table 6, the relation between concentration ownership (own more than 5%) and performance in ROA is negative and significant. One explanation could be due to the lower level of information disclosure and transparency by Palestinian listed firms. In this sense, available data about firms may be not enough for investors, particular minority stockholders, which may reflect positive on their assessment of share values. However, the findings of the current study are inconsistent with Shleifer and Vishny (1986), Tsionas et al (2012), and Lambertides & Louka (2008). Tsionas et al. (2012) points out that the relationship between concentration ownership and performance is positive in the shipping industry. Also, Omrana et al. (2008) found a positive effect for ownership concentration on market performance for four Arab countries (Egypt, Jordan, Oman and Tunisia). Pathirawasam & Wickremasinghe (2012) found no significant relation between ownership concentration and performance (ROA) in Colombo. Also, Omrana et al. (2008) found no significant relation between ownership concentration and performance (ROA and ROE).

On the other hands According to Abdelkarim and Alawneh (2007), ownership concentration effects the level of information disclosure and transparency by Palestinian listed firms, which, in turn, negatively affects governance practices. This implies that large shareholders in Palestine expropriate wealth of minority stockholders through controlling the decision-making processes, and direct it to serve their own interests. This may be true in the absence or weakening representation of the effect of small shareholders on board of directors. Furthermore, the negative relationship proposes that a firm's performance is better with more dispersed ownership structure, as argued by Pound (1988). Concentrated shares in the hands of large stockholders may result in ineffective oversight due to conflict of interests and exposure to high risk, as proposed by Demsetz and Lehn (1985). This result is in line with the prediction of the hypotheses of the entrenchment effect. Also, this may be more obvious in countries such Palestine, where the legal protection is weak for small stockholders, and in light of ability and incentive of large shareholders to exploit resources of a firm to serve their interest at the expense of minority stockholders, where the last one does not have any tool to effect the decision of a firm or stop it. Therefore, there is a significant relationship, and based on the presented

argument, it found a negative relationship instead of a positive one, due to the aforementioned reasons.

As shown in Table 6, the relation between institutional ownership and performance in ROA , ROE and TobinQ is negative and significant. This finding is in line with our earlier prediction. Specifically, this finding provides support for our expectation that institutional investors in emerging markets are inefficient monitors and are thus unlikely to exercise an effective governance role. Ongore & K'Obonyo (2011), Fazlzadeh et al (2011) finds evidence of significant positive relationship between institutional and firm performance. It can be observed from table 6 that the results of managerial ownership exhibit a not significant relationship with firms performance.

7. Limitations and Further Studies

Firstly, because of the unavailability of data about foreign or family, and the nature of investors, whether local, only three variable of ownership structures were considered in this study. Secondly, the size of the sample is a limitation because the market in Palestine is small and was reduced from 48 firms to 32 firms.

Future researches may want to consider other components of ownership structure variables, such as government ownership. If future studies have access to this information to test the effect of elements of ownership on the performance of a firm, where they are expected to have a role in monitoring managers (government ownership has an ability and incentive to monitor management due to their shareholding), which may have a positive effect on performance. Foreign investors could also bring some experience (monitor management) from their country, which positively contributes to a firm's performance. Secondly, this study used OLS regression to examine the relation between ownership structure, corporate governance and performance. Therefore, future studies may use 2 OLS regression models.

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