EVIDENCE ON CORPORATE GOVERNANCE COMPLIANCE BY PALESTINE SECURITIES EXCHANGE LISTED FIRMS

Naser Abdelkarim, Birzeit University
Khadija Ijbara, Birzeit University

ABSTRACT

Good corporate governance is widely recognized as essential for the creation of a better and more attractive investment climate. The key objective of this descriptive research is to examine the extent of compliance of firms listed at Palestine Securities Exchange (PSE) with corporate governance "best practices" from managerial perspective. The study provides evidence that the PSE listed firms do not comply satisfactorily with corporate governance best practices specially when it comes to Board Composition and Independence. On the other hand, the non-compliance level in the area of transparency and disclosure was not as obvious. The study identifies a number of factors that may contribute to this non-compliance including the non-existent of enforceable code of corporate governance and the outdated Company Law that is still in effect in the Palestinian Territories, and finally the family dominance over corporate affairs . The value of this study stems from providing an evidence on compliance with good corporate governance by firms operating in under-developed country with a small and simple but growing economy. The findings of this paper are considered relevant and helpful when evaluating the maturity of Palestinian economy, as well as the degree of PSE efficiency.

JEL: G34

KEY WORDS: Corporate Governance, CEO Duality, Boards' composition, Boards' effectiveness, Transparency and Disclosure.

INTRODUCTION

The issue of corporate governance emerges from the relationship among three groups in determining the direction and performance of the corporation. More specifically, the first group is the investors/shareholders who participate in the profits of the enterprise without being responsible for the operations, the second group constitutes of management who runs the company without taking the responsibility for personally providing the funds. To make this possible, laws have been passed so that shareholders have limited liability and, correspondingly, limited involvement in a corporation's activities. That involvement does include the right to elect directors who have a legal duty to represent the shareholders and protect their interests. As representatives of the shareholders, the third group appear to be the directors who have both the authority and the responsibility to establish basic corporate policies and to ensure that they are followed (Wheelen & Hunger, 2004). Therefore, a corporate governance problem arises from the separation of control from ownership (Nam and Nam, 2004).

Over the last two decades the world witnessed a series of events that made the topic of corporate governance a priority for both the business community and international financial institutions around the world. Impressive business failures have driven the demand for change in many countries. More recently, many reported scandals, financial crises, or institutional failures in East Asia, Russia, and the United States have brought corporate governance issues to the forefront in developing and developed countries and transitional economies, causing these countries to pay more attention to the corporate governance issues, especially the passive role played by boards of directors, the demand for increasing fairness,

accountability, responsibility and transparency of board members as well as top management (Helbling & Sullivan, 2002).

Since the declaration of the G7 Summit Meeting in 1998 regarding the new focus on " Corporate Behavior and Incentives", and the adoption of a set of principles of corporate governance by the Organization for Economic Cooperation and Development (OECD) in Mid-1999 which was amended in 2004, many countries have developed codes of best practice or have initiated legal, regulatory, and institutional corporate governance reform projects and programs (CIPE, 2003) . In the case of Palestine, the Palestinian Capital Market Authority (PCMA) has now completed the drafting of a code of corporate governance. This code is expected to be final and effective by the end of year 2009.

The need for a good corporate governance is addressed from the enhanced need for financial funds to sustain the increasingly complex nature of company activities that compete in an integrated world market. In this globalizing economy, in order to attract foreign investment, companies are increasingly concerned with good governance as they need to ensure that foreign investors' rights are respected. Corporate governance is very important for the maximization of the company value as it helps to reduce the cost of foreign financing by ensuring trust among foreign investors (Tuzcu & Fıkırkoca, 2005). Moreover, improvements of corporate governance practices in the developing and emerging markets are being given attention so as to attract investors disappointed by the breakdown of the US and Europe market (i.e. Enron and WorldCom). Consequently, developing and emerging markets have a chance to increase their share of international portfolio investment. Palestine as one of these markets, constitutes the area of concentration of this research. The uniqueness of this research will contribute to the work of other researchers in the field. Also, the findings of this study will provide a starting point from which regulatory bodies can begin to develop corporate governance.

The reminder of this paper is organized as follows. Section two discuss related literature. While section three explains the data collection and methodology used. Section four points out the empirical findings and discussion. And section five draw implications and further research in addition to study limitations.

LITERATURE REVIEW

Adolf Berle and Gardiner Means in their book "the modern corporation and private property" published in 1932 were amongst the first who emphasize that the separation of ownership and control allows managers to pursue interests that conflict with firm's value maximization, as cited by (Shleifer & Vishny, 1997; La Porta et al., 1999; Holderness, 2003; Tuzcu & Fikirkoca, 2005 and Gourevitch & Shinn, 2005). According to Holderness (2003) Berle and Means argue that most production occurs in small firms where owners are also the managers. However, the industrial and technological revolution required a change in the optimal size of firms, which cause inability for single individual to have sufficient wealth to own a controlling interest, as a result, firms faced "the dissolution of the old atom of ownership into its component parts, control and beneficial ownership" (Berle and Means, 1932, p.8 as cited by Holderness). Consequently, this separation of ownership and control warns "the very foundation on which the economic order of the past three centuries has rested".

According to Shleifer & Vishny (1997) this separation of ownership and control or "management and finance" as they called it, is the essence of the agency problem. "Agency problem is the difficulties financiers have in assuring that their funds are not expropriated or wasted on unattractive projects" (Shleifer & Vishny, 1997, p.741).

Corporate Governance Best Practices

Although the public benefit of corporate governance principles was firstly analyzed by Berle and Means in their seminal work "Modern Corporation and Private Property". They theorized corporate governance as an agency problem focusing on the issue of how to align the corporate executives' (who has the responsibility of managing corporate assets) interests with the shareholders' interests (Berle and Means, 1932 as cited by Tuzcu & Fıkırkoca, 2005). Serious Efforts to develop corporate governance by establishing international standards have recently gained vast attention. Global institutions such as the World Bank, the Organization of Economic Cooperation and Development, most of the regional development banks, and the various national development agencies have made severe effort towards establishing code of corporate governance in the last several years.

The news of fraudulent practices and company directors in boardrooms at high-profile firms like Enron, Tyco, and Worldcom, as well as the revelations of questionable accounting practices and the appearance of excessive managerial compensation at other firms made corporate governance to become the focus of very public debate. In response to the scandals, the US Congress passed the Sarbanes–Oxley Act of 2002 aimed at improving the quality of audits, enhancing the financial expertise of directors, and increasing the accountability of managers at publicly traded firms (DeYoung et. Al., 2005). The principal focus of corporate governance is to define the relationship between the three key actors of the firm: shareholders, the board of directors and company management (Wheelen & Hunger, 2004). This tight conceptualization is at the heart of OECD's corporate governance principles issued in the mid-1999 and reviewed in 2004 which are represented under five topics:

Table 1: Principles of Corporate Governance (OECD, 2004)

No.	**Principle**	**Description**
I	The Rights of Shareholders and Key Ownership Functions	"The corporate governance framework should protect and facilitate the exercise of shareholders' rights".
II	The Equitable Treatment of Shareholders	"The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights":
III	The Role of Stakeholders in Corporate Governance	"The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises":
IV	The Responsibilities of the Board	"The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders".

This table shows the five principles of corporate governance as indicated by the OECD.

As mentioned earlier, corporate governance is the relationship between three groups in determining the direction and performance of the corporation. From this view point, the main focus in the following section will be given to shareholders rights in light with equitable treatment of shareholders, followed by the responsibilities and effectiveness of the board of directors, and then disclosure and transparency issue.

Shareholders Rights and Equitable Treatment of Shareholders

The main difference between small closely-held companies and large publicly-held companies is that the later has a large number of small owners or shareholders who have the residual control rights through voting, but since those owners are too small and numerous to exercise such control on a day to a day basis they delegate this control to boards of directors who in turn delegate it to management (Hart, 1995). Hart added that those small shareholders or "dispersed shareholders" have little or no incentive to monitor management. This is because they believe (shareholders) that monitoring is a public good: if one shareholder's monitoring leads to improve performance, all shareholders benefit and since monitoring is

costly and time consuming they leave it to other shareholders and then no monitoring is achieved. Shleifer and Vishny (1997) argue that the process of collecting financing sources from many investors results in creating investors that are too small and poorly informed to exercise their rights of control as owners and they end up with the free rider problem. Although Boards of directors are assigned by shareholders to guide and monitor the management, shareholders are given rights to participate directly in monitoring their corporation, their primary rights are getting the necessary information on a timely and regular basis , participating in and voting at general shareholders meeting and electing board members (OECD, 2004).

Board of Directors Composition, Responsibilities and Effectiveness

A board of directors is viewed as "*a team of individuals with fiduciary responsibilities of leading and directing a firm, with the primary objective of protecting the firm's shareholders interests*" (Abdullah, 2004, p.47). Wheelen and Hunger (2004) divided the directors into two types: An inside director who is typically an officer or executive employed by the firm, and outside director who may be executive of other firm but is not employee of the boards firm, they argued that although there is no clear evidence indicates the inclusion of outside directors on board results in enhanced corporate performance. In US public companies, "outside" directors have been the great majority of directors for many years. Shareholders and various interest groups have seriously questioned the role of the board of directors in corporations. They are concerned that outside board members often lack sufficient knowledge, involvement, and enthusiasm to do a satisfactory job of providing guidance to top management (Wheelen & Hunger, 2004).

The boards of directors have many responsibilities, they are mainly responsible for setting the company's strategy, its overall direction and mission, hiring and firing the CEO and top management, controlling, monitoring and supervising top management, and reporting and caring for shareholders interests (Shleifer and Vishny, 1997; Wheelen and Hunger, 2004). Nam and Nam (2004) add that the board of directors is also responsible for making the final decisions on appointment of compensations to senior managements, budget, major transactions, and change to capital structure and related-party transactions. The concern of corporate governance has been with both the accountability of the boards of directors, and with board effectiveness (Cadbury,1992).

However, in reality, the boards in many far east companies work mainly for the interests of dominant shareholders harming the interests of minority shareholders and the firms it self, this behavior couldn't be effectively restricted and was one of the causes of the 1997 Asian crisis (Nam and Nam, 2004). To ensure the board effectiveness, the Cadbury committee (1992) recommends the inclusion of a sufficient number of non-executive directors who would bring independence in the boards' judgment. These non-executive directors should be, in the majority independent directors. Independent Director is the one who is not employed by the company and do not have any relationship with the dominant shareholder or top management and have no serious business interest in the company. Wheelen and Hunger (2004) state that outside directors are less biased and more likely to evaluate management's performance objectively than inside directors. This view is consistent with agency theory, which states that "*Problem arises in corporations because the agents (top management) are not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation*", (Wheelen and Hunger, 2004, p.29). This theory proposes that most of the board's members need to be outsiders so that top management is prevented from being selfish and harm shareholders interests. OECD (2004) emphasizes that sufficient number of non executives capable of exercising independent judgment on corporate affairs be assigned to tasks where there is a potential for conflicts of interest , such as financial reporting, nomination , and executive and board remuneration.

CEO Duality: When the board chairman is also the CEO, the board ability to monitor and oversea management is reduced as a result of lack of independence and conflict of interest (Daynton, 1984;

Dobrzynski, 1991). The issue that arises when companies practice CEO duality is “who monitors management?” that is best described as “who will watch the watchers.” The issue of separation of the top two positions has been addressed by the Cadbury committee (1992), which recommends that the roles of the board chairman and the CEO be separated. Although research does not clearly indicate either a definite positive or a negative effect of combined positions on the firm’s performance, the stock market responds negatively to announcements of CEOs also assuming the chairman position (Harris and Helfat, 1998). The OECD (2004) argues that mandatory separation of the CEO and chairperson positions might undermine the strategic leadership and accountability of corporations and might trigger damaging power struggles at the top ranks of corporations.

Information Transparency and Disclosure

Transparency and disclosure demonstrate the quality and reliability of financial and non-financial information provided by management to ensure that they are accountable for their actions. A company's published announcements and reports (and its general meetings) are its primary channel of communication with shareholders. Most literature focus on corporate governance disclosure itself, that is how to report the companies compliance with corporate governance. Other Literature deals with Transparency and Disclosure as a separate topic from corporate governance. Hermalin and Weisbach (2007) have proven that transparency and disclosure have a direct relationship with corporate governance, namely, CEO and board of directors. They argue that while transparency and disclosure have its benefits in increasing the firms' value they have costs as well; the cost is compensating management for involving in higher risk in their jobs as transparency increases. Disclosure should include essential information such as major share ownership and voting rights, members of the boards and executives governance structure namely, the basic relationship between stockholders, board of directors and management, the company's financial and operation results, managerial compensations, and related party transactions.

According to the OECD (2004) good corporate governance framework must include accurate disclosure on all material matters about the corporation, financial aspects, performance, ownership, and governance of the firm. It also concluded that Channels for disseminating information should provide for equal, timely and cost efficient access to relevant information by users. Timely disclosure of accurate information on important firm-related matter is important to protect shareholders’ rights. Nam and Nam (2004) argues that the importance of disclosure to shareholders is for two main reasons. First, shareholders require a free access to corporate information that helps them to make inform decision in their interests.Second. Information disclosure prevents managers and dominant shareholders from involving in illegal activities that are detrimental to minority shareholders.

The Palestinian Environment

The Palestinian private businesses do not have many adequate financing options, neither in amount nor in variety. The financial system cannot be characterized as sound, functioning or efficient. To the contrary, the financial intermediation through the banking industry is too low as reflected in the credit to deposits ratio. This ratio is on average below 30%, while it goes beyond 70% in neighboring countries as well as in OECD countries. Furthermore, more than two thirds of banking credits extended to private businesses have been either in the form of short-term loans or overdrafts, while long– term financing is almost none existent. That explains why the capital structure of almost all Palestinian corporations is geared heavily towards equity financing, with extremely low indebtedness (Abdelkarim, 2007). The establishment of Palestine Securities Exchange (PSE) in 1997 has provided public shareholdings with new opportunities for long – term financing, at a time when banks exercised a conservative credit policies (Abdelkarim, 1995). The PSE has 37 listed firms; these firms are banks, investment, service, food, and pharmaceutical companies in general. The market value of these listed companies had dropped by more than 40% by the end of 2004, but it started to rise in 2005 to reach unprecedented level of $3,500 million by the end of that

same year (increase by 200% from the level of 2000). However, beginning of 2006 the Palestine Securities Exchange, like other Arab markets, has been going through a severe price correction process, led so far to a loss of around 60% of its capitalization value, this declining value has even sharpened following the global financial crisis. In February 2005, the Palestinian Capital Market Authority (PCMA) was established in accordance with to the Securities Law number 12 for year 2004. The PCMA is the sole legal entity that is responsible for monitoring the trading activities at the PSE as well as for organizing the conduct of the listed companies and the brokerage member firms. The PSE performance has developed over years. However, it is still performing under its potential and still invites considerable reforms. Market efficiency and poor governance are issues still of concern to policy makers and investors. It is widely perceived that this phenomenon has been negatively affecting the fair pricing of stocks; consequently, impairing confidence in the PSE as a whole. This explains why the PSE continues to lack sufficient depth and liquidity. upgrading corporate governance is expected to attract foreign portfolio investments and in turn reduce ownership concentration.

To establish a good corporate governance framework, the interests of stockholders in publicly traded firms are protected largely by three institutions (De young and Driscoll, 2005). First, corporate board of directors, which hires and monitors the activities of the company's management. Second, the PCMA along with the PSE which issued a disclosure code of conduct in 2006, as well as undertaking a considerable efforts of establishing codes of corporate governance in Palestine, these codes are in the final stage and will be in effective by the end of this year. And the PSE market made up of various investors constitute the third influential institution on the stockholders' interests by offering daily opinions on the health of the firms by translating public information into a higher or lower stock price.

Very few studies conducted to study the corporate governance issue in Palestinian firms. A study of enhancement of corporate governance of companies in Palestine conducted by the Palestine Economic policy research institute MAS (2008) found that listed corporations compliance with the average corporate governance index is higher than unlisted corporations. Furthermore, the study found that there is a positive relationship between corporate governance execution and return on investment, growth in earnings and the debt ratio. Abdelkarim and Alawneh (2008) found some evidence of the relationship between firms' performance as measured by Tobin's Q and corporate governance expressed by ownership concentration, they argue that ownership concentration is negatively related to firm's value.

METHODOLOGY

All companies listed on the Palestinian Securities Exchange (PSE) as of December 31, 2008 were subject to investigation. Banks listed on the PSE were excluded. This is because, the banking law #2 year 2002 issued by the Palestinian monetary authority imposes more regulations on such banks, which causes some of the basic corporate governance requirements be implemented by those banks, while other listed companies are not enforced to do so.

A questionnaire was designed and submitted to the corporate managers located in Ramallah, Nablus and Gaza; the Questionnaire design include both factual information and opinions. Factual information is of importance so that the bias that may be introduced by the subjective judgments of individuals who evaluate corporate governance practices in their companies is minimized.

In constructing the questionnaire an already existing questionnaire survey on corporate governance practices from a study conducted by Nam & Nam (2004) was relied upon. This study's questionnaire requested factual information at the beginning. The rest of it is mainly composed of three main parts. The first part aimed at measuring the shareholders' rights in terms of receiving timely information and equitable treatment. The second part is about transparency and disclosure, as noted earlier. The third part aims to measure the boards of directors' efficiency and effectiveness, as well as their attendance,

contribution, qualifications, and commitment as key personnel for the company. Twenty one out of thirty one companies responded to the questionnaire, the data was coded and entered on the Statistical Package for the Social Science (SPSS) for analysis.

EMPIRICAL FINDINGS AND DISCUSSION

The survey results reflect the existence of almost complete privatization in the Palestinian firms. Since all the surveyed firms are neither wholly nor partially owned nor controlled by the government. By asking the surveyed firms about the relation of the CEO with the founder or the largest shareholder we could identify which of the listed firms are subject to corporate governance matter. Wheelen and Hunger (2004) argue that when the corporation is owned by the founder who also manage the company there is no need for an active board to protect the interests of the owner-manager shareholders, the interest of the owner and the managers are identical. In this instance, a board is really unnecessary and only meets to satisfy legal requirements. 57% of the firms are managed by professional managers, while 38% are managed by the founder himself who also acts as CEO of the firm and about 5% of the firms are managed by the founder's family members. The study investigated the shareholders participation in the shareholders meetings and the adequacy of information provided to them pertaining the agenda items as well as shareholders priority subscription rights in the issuance of new shares and the disclosure of the amount of equity ownership that major shareholders control. The results obtained from the survey are presented in the table below. The analysis shows that shareholders rights are adequately protected (with means of 1.95 and 2), but it seems that there is no adequate disclosure concerning ownership concentration (mean=2.43). Although, the ownership concentration as a major deficiency in corporate governance of most Asian economies is mentioned by Abdul Kadir(1999) who argues that it is not the general separation of management and control that creates problems but the existence of many firms with large shareholders who exercise control right on the expense of minority shareholders interests.

Table 2: Data Analysis for Shareholders Rights

		Shareholders are provided with adequate information on the meeting	Shareholders priority subscriptions right is adequately protected	It is not difficult to know how much equity ownership the major shareholders control
N	Valid	21	21	21
	Missing	0	0	0
Mean		1.95	2.00	2.43
Minimum		1	1	1
Maximum		5	5	5

This table shows the results of data analysis for shareholders rights the data was captured from a 5 points likert scale starting from 1as strongly agree to 5 as strongly disagree.

Furthermore, it seems to encounter difficulties in allowing shareholders to participate in decision making. This result could be enhanced by taking a closer look to the boards of directors composition in the listed firms, the observation indicates that most of the boards are dominated by family members and they are highly overlap suggesting the non-influence of shareholders in the decision making processes.

Concerning Transparency and Disclosure, A strong disclosure system can help to attract capital and maintain confidence in the capital markets. In our survey, 48% of the companies disclose resume background of directors either on its annual reports or on reports to regulatory agency (PSE authority). While 30% of the companies use its web site to disclose such information in addition to the annual reports or the reports to regulatory agency, and 22% of the companies do not disclose such information by any means of disclosure. Regarding the disclosure of the significant changes in ownership, the most used channel for disseminating such information is either the annual report or the report to the regulatory agency since almost 76% of the companies disclose such information either by annual report or report to

regulatory agency. 33% of the firms do not disclose governance structure and policies, while 28.6% disclose such information in the report to the regulatory agency. 14% the firms tend to use the annual report, report to regulatory agency and company's web site to disclose such information. The big, majority of the companies do not disclose any information concerning the extent to which the firm's corporate governance complies with the best practices. For the disclosure to be meaningful it should be timely, accurate and informative (OECD, 2004). Since formal business reports are usually issued only annually or semiannually, sensitive information should be reported on a timely basis to the regulatory agencies and posted on the company's web site promptly. Many countries are now mandating the use of the internet to increase its transparency and provide investors of timely, cost-effective and easy accessible information. Although the PCMA bylaw #12 for year 2004 as well as for 2006 of full transparency and disclosure require the disclosure of audited annual, semi annual reports and quarterly financial statements in addition to any timely-sensitive information that seems to be important for investors decisions, it seems that 9.5% of the listed companies do not disclose neither semi-annual reports nor quarterly financial statements, this unexpected results make the companies' transparency questionable. 30% of the responded firms have a web site which is informative in both languages English and Arabic, while 9.5% of the firms do not have a web site yet. The remaining 60% the firms note that their web sites have no or limited information in English.

Boards of Directors' composition: The size of boards in the surveyed firms seems to be in harmony with the typical board size, 57% of the boards have from 9 to 11 members while 33% of the boards have from 6 to 8 members. No board has less than 6 members. The share of outside or independent directors on boards is minimal. 62% of the boards do not have any outside directors, while 29% have more than 7 outside directors. It is prevalent among the surveyed firms not having any foreign nationals on their boards, only 19% of the firms do have foreign nationals. The position of the CEO and the board chairman are separated in 57% of the surveyed firms, while 43% of the firms combine the two positions in one person. 52% of the firms surveyed often include officer of an affiliated company, while 43% of the boards include senior manager from a supplier or a customer company or someone from law, accounting or consulting firm that provides professional service to the firm.

Boards Independence: For those companies that have outside directors more than half of them responded positively to the questions of weather outside directors meet without management to discuss corporate matters and alter or add to board meeting agenda. Those firms also note positively (often or sometimes) the actively involvement of outside (independent) directors in board discussions.

However, in response to the boards members interference in decisions made by management about 29% of the firms responded positively (often or sometimes), while about 20% of the firms responded negatively (rarely or never). The responded firms suggested that independent directors need to enhance their attendance at the board meetings, being more prepared and active in board discussion and have better knowledge of the business of the firm which in turn will contribute to improve their performance.
Board Functions and Committees: The survey results show that 57% of the responded firms do not have audit committees, whereas 86% do not have compensation committees on their boards and 71% of the firms have no nomination committees

It is worth mentioning that the audit committee has an important role in enhancing the reliability of the company's financial statements. In USA, for example it was recommended by NYSE, AMEX and NASDAQ that listed firms maintain independent audit committee (prior to Sarbanes-Oxley) after the passage of Sarbanes-Oxley all listed firms were required to maintain audit committee (Petra, 2005)
Compensation committee has the responsibility to evaluate the compensation of the firm's top executive officers including the CEO. The importance of this committee comes from its role in controlling the level of CEO compensation (Petra, 2005) while the main purpose of the establishment of a nominating committee is to nominate individuals for the firm's board of directors. The separation of the board from

the nomination role aim to reduce the role of the board members, and mainly the CEO, in such nominations and choosing individuals who are willing to be advocates to the shareholders and not to the CEO (Petra, 2005). Concerning the CEO and board members evaluation, the boards of the surveyed firms seem to be not active in evaluating CEO performance and compensation, and there is no formal mechanism for evaluating the director's performance in 57% of the firms.

The controlling owner seems to have the strongest voice in the selection and dismissal of the board member. This point is an indication of the existence of ownership concentration problem in which the controlling owner dominate decision making usually on the expense of minority shareholders' interests.
Boards Roles and Functions: As table 3 shows, more than 90% of the respondents agree that selecting more of truly independent directors will enhance the effectiveness of the boards, 76% of the respondents note about the importance of separating the CEO from the board chairman position. According to Harris and Helfat (1998) combining these two positions is being widely criticized for the reason of potential conflicts of interests and the critics "ask how the board can properly oversee top management if the chairman is also top management". Although there is no empirical studies prove definite positive or negative effect on corporate performance, the stock market responded negatively to the announcement of such combination. Furthermore, the trend in USA, Canada and UK is going toward recommending the separation of the two positions, while in Germany, Netherlands and Finland such separation is required by law. Furthermore, according to the CIPE (2003) (Center for International Private Enterprise) the separation of the CEO from the board chairman position would be difficult to be adapted by the Middle East and North Africa region, as the majority of companies are family-owned and it is not easy to convince an owner who invested his money in the company to step aside and allow others to manage his money. The big majority of the respondents suggest that it is important to evaluate board, directors and the CEO formally and annually and to disclose boards' activities more efficiently. Abdul Kadir (1999) argue in a report on corporate governance practices in Malaysian listed companies that many of the listed firms emerged from small, previously private companies which had a good growth prospects, owners of these firms became overnight directors of a public listed firm which is subject to a number of sophisticated law that may not have fully understanding in its majority he called this matter "lack of awareness of responsibility".

Table 3: Data Analysis for Boards' Independence and Composition

		Selecting more of better qualified, truly independent directors	**Separating the CEO from the board chairman position**	**Formal annual evaluation of the board and directors**	**Formal CEO evaluation by the board**	**Better disclosure of board activity**
N	Valid	21	21	21	21	21
	Missing	0	0	0	0	0
Mean		1.62	1.95	1.57	1.57	1.48
Minimum		1	1	1	1	1
Maximum		5	5	5	5	5

This table shows the results of data analysis for boards of directors composition and independence, the data was captured from a 5 points likert scale starting from 1 as strongly agree to 5 as strongly disagree.

More than 75% of the respondents suggest that boards of directors should play a significant role in selecting, monitoring and replacing CEOs (mean=2.05). The boards seem to be doing relatively a good job in actively involving in formulating long-term strategies (mean=1.71). the boards seem to be fairly active in ensuring proper disclosure is in place and these disclosure is being actively communicated with shareholders (mean=2.14). Also boards are doing good in ensuring the effectiveness of various governance practices (mean=2.19). When the respondents asked to evaluate the quality of their corporate governance practices compared with that of other listed firms, most of them said that their firms is much or slightly better. This evaluation is seen as subjective and may not have any reliable information. In a ranking question, respondents were asked to rank several tasks according to their effectiveness of

contribution to obtain better corporate governance in Palestine, the result from the respondents' point of view were as follows:

Table 4: Data Analysis of Ranking Tasks for Better Corporate Governance in Palestine

Task	%
Enhancing the standards of accounting, audit and disclosure	76.9%
Making the internal corporate governance mechanisms work better	74.6%
Reducing ownership concentration	66.9%
Making the external governance mechanisms more effective	65.4%
Prohibiting or tightly controlling some types of related-party transactions	65.4%
Conducting and publicizing corporate governance ratings	63.8%

This table shows the results of the ranking question for tasks that may enhance corporate governance in Palestine.

As it is seen in table 4 above, the task of enhancing the standards of accounting, audit and disclosure was given the most importance relative to other tasks which emphasize our findings in the previous section that transparency and disclosure practices in Palestinian listed firms need to be enhanced. Enhancing the internal corporate governance mechanisms -which is the core of this research-, took the second priority, and the third priority was given to the ownership concentration problem which this research was able to predict, and its symptoms were detected through the analysis of the research data. Finally a cross tabulation conducted to detect any correlation between various variables, the results show a correlation between the relation of the CEO with the founder and the CEO duality, it also prove that there is a correlation between the company size and the availability of an informative web site.

IMPLICATIONS AND FURTHER RESEARCH

The study investigated the PSE firms' compliance with corporate governance best practices. Corporate governance best practices were divided into three main categories: shareholders' rights, boards of directors' composition, and transparency and disclosures. These three main shafts were examined from executives' point of views. Based on executives' opinion, shareholders rights seem to be fairly protected, but assurance of minority shareholders rights need to be investigated which left for further researches; although it seems that there is difficulty in allowing shareholders to participate in decision making which could be related directly the ownership concentration.

A board of directors' independence is Questionable, since they lack many factors that enhance board's independence and CEO duality exists in many of the listed companies. The boards' members are dominated by family members and are largely overlap which may result in minimal influence of shareholders in the decision making processes, and the controlling owner have the strongest voice in selecting and dismissing of the board members. Firms of outside directors on their boards need to enhance those outsiders' attendance, preparation for the boards meetings and their knowledge of the business of the firm they serve. The research indicates a correlation between the relationship of the CEO with the founder or the largest shareholder and the CEO duality. Further, boards of the listed firms need to give more attention to the boards' committees since most of those boards do not have audit, compensation or nomination committees.

Concerning transparency and disclosure issue, annual reports and reports to regulatory agency are the most commonly used means of disclosure by Palestinian listed firms, the internet play a very limited role in the company's disclosure. The research also indicates a correlation between company size in total assets and the availability of an informative web site for that company. Transparency and disclosure appears to have more weight than other corporate governance codes of best practice this is because of the disclosure law enforced by the PCMA and PSE.

According to the executives' views, better governance in the Palestinian firms will be enhances by enhancing the standards of accounting, audit and disclosure, making internal and external corporate governance mechanism work better, reducing ownership concentration, and tightly controlling some types of related-party transactions. The Palestinian listed firms should intense its efforts to improve its governance practices and there should be a formal mechanism for evaluating the performance of boards' members and CEOs and The Palestinian Capital Market Authority with the cooperation of the Palestinian legislative council should:

1- Undertake a review of the legal and regulatory infrastructure to evaluate its effectiveness in promoting sound corporate governance standards. This must include a review of laws governing shareholder rights, duties of directors, disclosure provisions with particular emphasis on related-party transactions and evaluating the effectiveness of present enforcement mechanisms.
2- Ascertain on the importance of developing a Palestinian code of best practices in corporate governance.
3- Identify training and education needs for directors, corporate management and shareholders.

Limitations of the Study

The study approached corporate executives' opinions as a measure for good governance, this could result in a subjective evaluations and biases. In addition, lack of awareness on the topic of corporate governance is noticed to be exist, that has been discovered from the respondents answers. This limitations may be overcame if the study approaches the analysis of annual reports as evidence of compliance, which can be left for further research.

APPENDIX

Appendix A: Questionnaire Survey on Corporate Governance Practices

To the respondents: Thank you very much for your willingness to join this survey. This survey is conducted with a view to understanding corporate governance practices in Palestine at the firm level. The survey is asking questions on the practices in your firm, regardless of the laws and regulations. Your accurate and frank response is a key. The results will be used only for research purposes and be presented only in aggregate without being revealed by individual firms.

1. ***To which of the following sectors does your company belong?***
   - ***A.*** Banking Industry.
   - ***B.*** Consulting and trade services.
   - ***C.*** Pharmaceuticals and chemicals.
   - ***D.*** IT (Information Technology).
   - ***E.*** Food Industry.
   - ***F.*** Others, Please Specify_______________________.
2. ***Company size, Total assets in Dollar amount________________.***
3. ***How many employees does your firm have? _________ [ ]*** persons
4. ***Is the firm wholly or partially owned and controlled by the government?***
   - ***A.*** No
   - ***B.*** Yes, substantially owned and controlled by the government
   - ***C.*** Partially owned, but not much controlled by the government
   - ***D.*** Others --- [Please explain:
5. ***What relation does the CEO have with the founder or the largest shareholder?***
   - **A.** Founder him/herself
   - **B.** Founder's family member
   - **C.** Professional manager
   - **D.** Others --- [Please explain:

6. ***Show your degree of agreement on the following statements?***	**Strongly Agree**	**Agree**	**No Opinion**	**Disagree**	**Strongly Disagree**
Shareholders are provided with adequate information on the agenda items of the shareholders' meeting					
Shareholders' priority subscription right in the issuance of shares or convertible bonds (so that they can maintain their fractional ownership) is adequately protected in the company's articles of incorporation or in the process of shareholder approval					
It is not difficult to know how much equity ownership the major shareholders control (including the equity shares of companies they control)?					

7. ***Would it be possible for the director candidates proposed by the management of your firm to fail to be elected at the shareholders' meeting?***
   - ***E.*** Sometimes
   - ***F.*** Rarely
   - ***G.*** Unthinkable

8. ***Approximately, how many shareholders attended the last annual meeting?*** ------------------------- [ ] persons.

9. ***Does your firm disclose the following information? If yes, by what means?***
<More than one choice can be made.>

Web: company's web page	**AR:** annual report
RR: report to regulatory agencies	**No:** no disclosure

	Web (A)	**AR (B)**	**RR (C)**	**No (D)**
Resume/background of directors				
Major contingent liabilities such as cross-guarantees of debt repayment				
Significant changes in ownership				
Governance structures and policies (explicit corporate governance rules and vision)				
The extent to which the firm's corporate governance practices conform to the established standards				

10. ***Does your firm disclose semi-annual reports?*** (**A**) Yes (**B**) No

11. ***Does your firm disclose quarterly financial statements?*** (**A**) Yes (**B**) No

12. ***Does your firm have a web-site? Is it also in English?***
    - **A.** Available and very informative both in local language and English ------------------------
    - **B.** Web-site informative in local language, but limited information in English
    - **C.** Web-site informative in local language, but no English web-site ---------------------------
    - **D.** Web-site available only in local language and not very informative------------------------
    - **E.** No web-site yet

13. ***Comparing the accounting and audit standards of your firm with the relevant international standards (such as IAS and ISA) how would you find it ?***
    - **A.** Virtually the same
    - **B.** Some relaxation
    - **C.** Substantially lower
    - **D.** Not sure

14. ***How many directors does your (supervisory) board have in total?*** -------------------------------- [ ]

15. ***How many outside (Independent) directors does your board have?***------------------------------ [ ]

16. ***Are there any foreign nationals on your board?*** (**A)** Yes (**B)** No

17. ***Does the CEO of your firm also serve as board Chairman?*** (**A)** Yes (**B)** No

18. ***Do you have the following person on your board now (as a director)?***

- Current or former officer of a major creditor financial institution (**A**) No (**B**) Yes
- Officer of an affiliated company (**A**) No (**B**) Yes
- Senior manager from a supplier or customer company (**A**) No (**B**) Yes
- Someone from a law/accounting/consulting firm that provides professional services to your firm. (**A**) No (**B**) Yes

If your board contains an Independent director then answer questions #:19,20 If not then go to question #: 21.

19. ***How prevalent are the following practices?***	Often (**A**)	Sometimes (**B**)	Rarely (**C**)	Never (**D**)
Independent directors meeting formally or informally without management to discuss corporate matters				
Independent directors altering or adding the board meeting agenda set by the CEO				
Independent directors participating actively in board discussions				
Board members actively interfere in decisions made by management				

20. ***Do you think that the following tasks will contribute to the better performance of outside directors?***	**Strongly Agree**	**Agree**	**No Opinion**	**Disagree**	**Strongly Disagree**
Better attendance at the board meetings					
Better preparation for, and more active participation in, board discussion					
Better knowledge of the business of the firm					

21. ***Does your board have the following committees?***

- Audit Committee (**A**)Yes [ ], (**B**) No
- Compensation Committee (**A**) Yes [ ], (**B**) No
- Nomination Committee (**A**) Yes [ ], (**B**) No

22. Does your board or compensation committee formally evaluate the CEO's performance?

(**A**) Yes, as a routine (**B**) Sometimes (**C**) Rarely (**D**)Never

23. How many board meetings were held last year?

(**A**) 2-3 times (**B**) 4-5 times (**C**) 6-7 times (**D**) 8 times or more

24. What was the average attendance rate for board meetings?

(**A**) 90-100% (**B**) 80-90% (**C**) 70-80% (**D**) 60-70% (**E**) 50-60%

25. Is there any formal mechanism for evaluating the performance of directors?

(**A**) Yes, and effective (**B**) Yes, but ineffective (**C**) No formal mechanism

26. Who has the strongest voice in the selection and dismissal of independent directors?

A. Board or nomination committee (autonomously)
B. CEO
C. Controlling owner (who is not the CEO)

27. What do you think about the following tasks for the purpose of enhancing the Effectiveness of the board?	**Strongly Agree**	**Agree**	**No Opinion**	**Disagree**	**Strongly Disagree**
Selecting more of better qualified, truly independent directors					
Separating the CEO from the board chairman position					
Formal annual evaluation of the board and directors					
Formal CEO evaluation by the board					
Better disclosure of board activity					

28. Do you agree that your board is active in and makes much contribution to the following tasks?	**Strongly Agree**	**Agree**	**No Opinion**	**Disagree**	**Strongly Disagree**
Actively involved in formulating long-term strategies					
Plays an important role in selecting, monitoring, and replacing the CEO					
Ensures proper disclosure and actively communicate with shareholders and stakeholders					
Ensures the effectiveness of various governance practices					

29. What is your view of corporate governance in your firm compared with other Exchange-listed firms?
*(**A**) Much better* *(**B**)Slightly better* *(**C**)About the same*
*(**D**)Slightly worse* *(**E**)Much worse*

30. Which of the following tasks do you think is most effective for better corporate governance in Palestine? <Write 1, 2, . ..6 starting from the most important.>

– Making the internal corporate governance mechanisms (such as shareholder participation and the role of the board) work better [ ]
– Making the external governance mechanisms (such as hostile M&A) more Effective [ ]
– Enhancing the standards of accounting, audit and disclosure [ ]
– Conducting and publicizing corporate governance ratings [ ]
– Prohibiting or tightly controlling some types of related-party transactions (like lending to directors or senior officers and cross-guarantees of repayment) [ ]
– Reducing ownership concentration (by tighter control of cross-shareholding or pyramid ownership structure, etc.) [ ]

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BIOGRAPHY

Dr. Naser M. Abdelkarim is an Assistant Professor and chairperson of the Accounting Department at Birzeit University, Palestine. He earned his PhD in Accounting in 1992 from Southern Illinois University, and His Master's in Accounting in 1984 from Texas A & M. He can be contacted at Faculty of Commerce and Economics, Birzeit University, Birzeit, Palestine. Email: nabdelkarim@birzeit.edu

Khadija B. Ijbara is an Accounting Lecturer at Birzeit University, Palestine. She can be contacted at Faculty of Commerce and Economics, Birzeit University, Birzeit, Palestine. Email: kijbara@birzeit.edu; kjibara@yahoo.com