

CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter provides the main conclusions of this study. This chapter consists of 5 sections, which are arranged as follows. Section 6.2 presents an overview of the most relevant results of the study. Subsection 6.3 discusses the academic and practical implications of the study. Moreover, the limitations of the study are discussed in Section 6.4. Finally, suggestions for further research are presented in Section 6.5, while a chapter summary presented in Section 6.6.

6.2 Overview of the Study

Previous studies have indicated that CG mechanisms are essential part of protecting shareholders' interests. So, it is very important to establish effective CG structures to alleviate EM practices (AbuSiam et al., 2014b; Fama & Jensen, 1983; Lin & Hwang, 2010). Based on the importance of CG and its role in limiting EM practices, this research aims to provide evidence related to the association between CG characteristics and EM practices in the non-financial firms listed on the PEX from 2011 to 2018. This period was selected because it is full of major political and economic conditions. These conditions were a fundamental motive to conduct this study under such a situation in Palestine. Additionally, the scarcity of the studies conducted in Palestine was also another motive to investigate the effects of the CG characteristics and political instability on EM in Palestine.

Riwayati, Markona, and Siladjaja (2016) have demonstrated that there is a strong association existed between CG systems and EM practices. So, the high quality of the CG system can reduce the asymmetrical information and EM activities, mitigate agency problems, and protect the interests of the stockholders, as well as the stakeholders. Based on the arguments mentioned above, this current research extends the CG literature by considering the overall characteristics of BOD and AC altogether in one composite measure, namely, BOD and AC quality, in relationship to EM in the Palestinian context. Further, the ownership structure plays a pivotal role in reducing or increasing EM levels. Thereby, this study examined the impact of some types of ownership structure on EM practices in Palestine. Moreover, the external environment is considered one of the main factors that influences the CG effectiveness and the levels of EM practices. Hence, this study investigated the impact of political instability as a moderator variable on the association between the quality of BOD and AC with EM practices in the Palestinian context.

In line with the proposition of the agency theory and based on the previous studies regarding the efficiency of specific characteristics of BOD, AC, and OS, this current work indicates that BODs that consist of more non-executive members, more frequent meetings, remuneration and governance committee, and more nationality diversity are more effective in constraining EM in Palestine. Likewise, ACs are effective in mitigating EM when they have more directors sitting on the committee and include more non-executive members. On the other hand, the OS will be an effective tool in restricting EM when listed companies have less concentrated ownerships, more institutional ownership, and less foreign ownership.

The present study utilized panel data approach, which were widely used by accounting, economic and finance literature. So, OLS regression models, namely,

pooled OLS regression and a random effects model are the appropriate methods to be used in analyzing panel data. Based on the pooled OLS regression analysis, many significant results emerged. First, when board characteristics were taken individually to study their impact on EM, the results revealed that board meetings, board independence, board nationality diversity, and existence of the remuneration and governance committee had a significant and negative relationship with EM. These empirical findings align with the perspective of agency theory, which suggested that a higher proportion of non-executive directors in the BODs might enhance the effectiveness of BOD in constraining EM, then mitigating agency problems. Furthermore, BOD that has a smaller number of meetings annually might not be effective adequately to perform their duties effectively. The resource dependence theory argued that foreign directors provide additional value to the board by having different skills and experiences. Based on agency theory, the BOD committees might perform effective functions contributed to mitigate the opportunistic behaviors of management (Jensen, 1993). However, the current study failed to find any important evidence demonstrating that BOD size and CEO's duality had a significant relationship with EM. One possible explanation is that larger BODs are likely to face problems of control, coordination, and the process of decision-making.

Second, in terms of the impact of AC characteristics on EM activities, the regression results of the present research revealed that AC size and AC independence had an insignificant and negative association with EM. These results supported by the agency theory perspective that the independence and the appropriate size of the AC play key roles in effectively employing monitoring duties to reduce EM practices. On the other hand, this study found that the AC financial expertise had a positive but insignificant relationship with EM, which was not supported by the agency theory

perspective. This implies that it would be better for the Palestinian companies to adopt PCCG guidelines and form an AC that may enhance the effectiveness of the role of the AC and then reduce EM practices. Moreover, the result might be improved so that they were significant if the formation of AC in Palestine moved from voluntary formation to a mandatory phase.

Third, based on the pooled OLS regression results, the results of the present study revealed an insignificant relation between ownership concentration and EM in Palestine. The positive relationship was according to the expected sign when the hypothesis was developed in Chapter 4. This result aligns with the perspective of the agency theory, which proposed that the concentrated ownership might create a conflict of interests between the minority and majority of stockholders, whereby the majority stockholders might intend to expropriate the company's resources.

In terms of institutional ownership, this study showed a strong association between the ownership of institutional investors and EM practices in Palestine. That means an increase in the percentage of institutional ownership leads to constraining managers from engaging in EM. Predicated on the perception of agency theory, institutional investors could lead to enhancing monitoring tools to control the management behaviors. Moreover, institutional stockholders may have a robust controlling function to monitor the opportunistic behaviors of management (Shleifer & Vishny, 1986).

Concerning the association between foreign ownership and EM level, this study found that the relationship was positive and significant. This result did not align with the agency theory perspective that foreign investors may strengthen the CG structure to reduce agency costs (Hassan & Hijazi, 2015). Shayan-Nia et al. (2017) enunciated one possible explanation of this result: foreign investors are more interested in the long-term

financial soundness of their firms than their daily operations (Shayan-Nia et al., 2017). Another possible explanation of this finding is that ownership concentration in Palestine is associated negatively with firm performance. At the same time, the Palestinian economy suffers from a low level of liquidity that reduces confidence in PEX, and a high degree of political instability does the same. These might weaken the role of foreign investors in Palestine.

Forth, the current study found a surprising and unusual finding in that the level of the quality of BOD proxied by a composite measure increases the level of EM. This result is not aligning with agency theory, which suggests that an active BOD leads to the reduction of agency problems and thereby might mitigate EM (Habbash, 2010). The result of BOD quality in this study is consistent with Hassan (2016), which found that CG quality correlated negatively with financial performance in Palestine. He also added that the best explanation for this was that CG in Palestine is still emerging and in the infancy phase.

In terms of AC quality, this study found that a high-quality AC leads to the lowering of EM in Palestine. This finding supported by the study of AbuSiam et al. (2018), which indicated that firms with a high degree of quality as an aggregate measure could reduce agency conflicts, which may lead to the strengthening of AC monitoring role to mitigate EM to provide transparent financial statements.

Fifth, according to random effects regression analysis, the findings indicated that political instability plays a vital role in CG in Palestinian corporations. Accordingly, this finding reveals that the interaction of political instability on the association between the quality of the BOD and EM was negative and significant. Thus, the quality of the BOD is stronger in mitigating EM when the situation is characterized by a high level of political instability, which was from 2011 to 2014 in this study. This finding implies

that the BOD does work as a good mechanism to deter managers from engaging in critical levels of EM under the effects of a high degree of political instability.

On the other hand, the result of the interaction of political instability on the relationship between EM and the quality of AC reflected that the relationship was positive but weak between AC quality and EM under the severe unstable political and economic situation, which was defined in this work from 2011 until 2014. The possible explanation is that the voluntary formation of AC in Palestine weakens the role of AC, particularly in an unstable political situation. Another possible explanation of this resulted supported by Awartany (2013), who documented that that 47% of the public listed firms did not have an AC; this may be evidence that weakness in AC quality in unstable political conditions. Madi (2012) suggests the block holders might lead to higher agency conflicts because of information asymmetry between them and minority investors. Therefore, an ineffective ACs during the period of political instability is unable to minimize the problems of agency due to concentrated ownership.

6.3 Contributions and Implications of the Study

This section provides several implications, contributions, suggestions for future works, and limitations of this study as presented in the following sections.

6.3.1 Theoretical Contributions

In terms of the theoretical contribution, this study uses two theories —agency theory, and political theory. The agency theory has been widely utilized in respect of studying the influence of CG on EM. Using agency theory is because the most comprehensive theory dealt with the issues of CG and EM. In this research, there are some pivotal theoretical perspectives related to agency theory, as the main theory,

which is used to hypothesize the link between EM and CG mechanisms in the context of Palestine. With regard to the political theory, it is adopted in this study to effectively capture the influence of the political situation on EM in Palestine. So, political theory is used as a secondary role beside the main theory which is agency theory. Therefore, utilizing the variable of political instability in this study represents contextual uniqueness in Palestine.

6.3.2 Methodological Contributions

As a methodological contribution, the EM framework of the main model includes BOD characteristics, AC characteristics and OS. This model introduced two variables which were firstly utilized in Palestine (the existence of remuneration and governance committee, BOD nationality diversity, institutional ownership, foreign ownership, ownership, and AC attributes). In addition, the EM framework of the moderation model consists of new variables which are firstly used in such studies (political instability) and other variables which are firstly used in Palestine (BOD and AC quality). Moreover, Political instability has not been treated as a moderator in the previous research of CG and EM. Furthermore, this research employs panel data for the years between 2011 and 2018, where the same companies serve on the panel over eight years, and which gives advantage to measurement of the changes that take place between points in time. This is especially true since the Palestinian CG code was introduced in 2009.

6.3.3 Research Academic Implications

First, the political instability was studied to investigate its impact on EM practices in Palestine was investigated. The political instability in Palestine impacts a company's

performance negatively because of the devastating wars launched on Gaza by Israel. The results of this study found a significant and positive relationship between EM and political instability. This means that managers are more likely to engage in EM in a severe crisis and a severely unstable environment due to the political situation in Palestine.

Furthermore, political instability moderated the relationship between BOD & AC quality and EM. The target of the moderating role was to investigate whether BOD and AC quality play an effective function during severe political instability to deter managers from practising aggressive levels of EM in Palestine. The findings of this study have shown that BOD quality has an effective role in restraining management from engaging in high levels of EM under political instability. The political instability situation weakens the ability of AC to constrain managers from engaging in EM. These results imply that users of financial statements, stakeholders, investors, policymakers, PEX, and practitioners should consider the political environment surrounding Palestine in assessing the extent to which companies practice EM. So, that will help policy makers in reviewing and reforming the existing regulations and PCCG.

Second, prior studies investigating the impact of CG characteristics on EM practices have been conducted in developed countries like the United Kingdom and the United States of America. Although several studies related to CG topics have been conducted in developing countries, such as Malaysia, Jordan, Tunis, and Egypt, very few studies have been done in Palestine. Hence, this current study extends the literature about the Palestinian economy where its stock exchange remains in its infancy stage. Additionally, Palestinian companies are characterized by high ownership concentration and weak legal protection of minority shareholders because of ineffective CG mechanisms to monitor their activities. Furthermore, a high degree of political unrest

and instability characterized the Palestinian environment, and this instability weakens the regulatory system and CG, which may lead to more EM practices.

Third, the present study investigated the relationship between the BOD and AC quality and EM. The findings of this study produced inconclusive results compared to the studies conducted by Makhlouf et al. (2017) and AbuSiam (2015). These studies found that the combination of CG mechanisms led to minimizing agency costs and protected the stockholder's interests. Conversely, the combination of CG mechanisms in this current study revealed a unique evidence that composite measures of the BOD and AC indicated that individual CG characteristics need to be aggregated together to give a comprehensive platform of CG effectiveness. A composite measure of BOD reflects the weakness in the BOD structure in reducing EM in Palestine, while the individual characteristics revealed that BOD characteristics were effective in alleviating EM.

In respect of AC as a composite measure, this proxy showed that AC was essential in Palestine in reducing EM. Thus, these results showed the importance of the agency theory in the Palestinian setting, characterized by highly concentrated ownership and a highly unstable political and economic environment.

Finally, this study utilized panel data due to its benefits regarding the results generalizations and reliability of estimates. In the PEX and other stock markets in Arab countries such as Egypt and Jordan, the numbers of listed companies are small compared to developed countries like the United States of America or developing countries like Malaysia. Therefore, the panel data was in this thesis to get over this shortcoming by raising the observations of this study with a total of 232 observations. Hsiao (2003) and Baltagi (2008) documented that the inclusion of a relatively large number of observations boosts the capability to generalize the findings of a study and

the power of statistical methods. Indeed, using the panel data technique makes the finding of current research more credible than cross-sectional and time series methods, which that prior EM studies have addressed.

6.3.4 Practical Implications

This study explores the moderating impact of political instability on the association between the quality of BOD and the quality of AC with EM. The random effects regression results revealed that political instability proxied as a dummy variable was associated with EM positively. The significant result of BOD quality supports that an increase (decrease) in the quality of the BOD drives to increase (decrease) in EM. At the same time, the significant result of AC quality provides evidence that an increase (decrease) in the quality of the AC drives an decrease (increaser) in EM practices. The unique findings of political instability reveal that the situation of the political environment is essential to understand the association between the quality of the BODs and the ACs with EM in Palestine.

The results of this present study provide relevant evidence from an emerging country that contributes to prior literature on the impact of the effectiveness of the BOD, AC, and OS on the EM practices and the improvement of CG structures in the Middle East, especially Palestine. Therefore, the findings of this current study can be generalized to other countries that have similar cultural and economic considerations, especially for developing economies. Furthermore, this research contributes evidence from Palestine, which is suffering from unrest in its political and economic environments. Some countries in the Middle East, like Libya, Syria, Egypt, Yemen, and Bahrain, are also suffering from political instability after the Arab Spring in 2011. So, the results of this study can be generalized to these unstable countries. The findings of

the current research should be of prospect importance to shareholders, potential investors, regulatory bodies and government, policymakers, academics, and researchers.

This study provides evidence that some characteristics of BODs and ACs and OS contribute to the mitigation of EM activities. With respect to BOD characteristics, this study found that the BOD number of meetings, BOD independence, BOD nationality diversity, and the existence of a remunerations and governance committee effectively constrained EM activities in Palestinian corporations. Hence, the PCMA should take this into account when reviewing the PCCG to force the general assemblies of the corporations to appoint more independent directors and enhance the BOD diversity to boost the effectiveness of the CG structure in Palestine. Thus, this study recommends that Palestinian listed companies choose board members based on expertise, efficiency, and diversity rather than cronyism and family relations.

Regarding the results of AC characteristics and their association with EM practices, this study determined that both AC size and independence had an insignificant and negative association with EM practices. Despite descriptive results that companies with an AC have an adequate number of members, many companies still do not have an AC. The overall weak influence of ACs should lead policymakers and regulatory bodies to give the formation of AC extreme attention due to its essential role in the CG structure in Palestine. So, this study recommends that Palestinian listed companies must form an AC to enhance their CG practices in reducing EM and agency problems. Furthermore, this study recommends that the PCMA alter the PCCG to make the formation of an AC mandatory in Palestinian companies to gain the confidence of investors, owners, and official bodies.

Concerning the results of ownership structure variables, this study revealed a positive association between ownership concentration and foreign ownership and EM practices. Palestine, as a developing country, is characterized by highly concentrated ownership, and this type of ownership can create agency problems between block holders and minority shareholders. Additionally, the concentrated ownership in Palestine restricts foreign investors from participating strongly in the Palestinian economy, which may lose the infusion of their investments in Palestine Exchange. Additionally, this study recommends that policymakers and government bodies should work to encourage dispersed ownership that would give more power to the economy and markets, and thus allow greater participation for foreign investments, as well as reduce agency problems to reduce EM.

Generally, the mean values in the descriptive statistics of this study variables revealed that the companies listed in PEX adopted the articles of PCCG in forming BOD and AC there. However, room exists for improvement and enhancing compliance with the PCCG. On the other hand, the regression results revealed that the quality of BOD, foreign ownership, ownership concentration, and AC financial expertise and their relationship are positively associated with EM. Therefore, the PCCG, which was established in 2009, needs to be improved and reviewed and mandatory requirements added so that listed companies would be more in compliance with the code's rules, which in turn will lead to enhance the quality of financial reports.

This study addressed the BOD quality measured by an index constructed combining BOD characteristics in one measurement to investigate its relationship with EM. Accordingly, this study found a positive relationship between BOD quality and EM. This result of BOD quality was consistent with Hassan et al. (2016), which found that financial performance was negatively related to CG. Hassan (2016) also added that

CG systems in Palestine are still emerging. According to the argument abovementioned, this result illustrates that there is a problem in the CG structure in Palestine. Thereby, PEX should be required to make several reforms in the CG code and motivate Palestinian corporations to be more compliant with PCCG.

Relatedly, the study elevates the sensibility of the need to raise the level of BOD effectiveness to reduce EM practices in Palestine where the environment is unstable. In terms of the quality of AC, this study found a negative association between the quality of the AC and the level of EM practices in Palestine. Hence, policymakers and the Palestine Exchange must strengthen the role of ACs in listed Palestinian companies. As this study demonstrated that the quality of an AC has an effective role in limiting the EM level; therefore, this study recommends that the role of an AC role should be expanded, and all listed non-financial companies should form an AC.

Besides the political instability in Palestine, the Arab Spring of 2011 has impacted the economics of MENA countries negatively. As a result, foreign investments fled from these countries such as Tunisia, Egypt, Libya, Syria, and Palestine due to political unrest. This study recommends the policymakers and government bodies should update regulations, laws, and governance codes to offer sufficient protection to the shareholders, which would attract further local and foreign investors to infuse their investments into the Palestinian economy. This might mitigate the negative consequences of political instability in Palestinian corporations. Good corporate governance and effective BODs should be a pivotal tool to deter EM in an unstable political environment such as Palestine.

To improve the role of BODs in Palestinian companies, the Palestinian government and regulatory bodies should encourage CG institutions in Palestine, such as the PCMA. The institute aims to provide specialized support to public and private

institutions to improve their CG practices. Moreover, companies should establish a governance committee like the AC to be more in compliance with PCCG. The duties of this committee are to ensure the most proper implementation of CG principles. Finally, any efforts or attempts to develop principles of CG must account for the Palestinian environment and culture as well.

The findings of this study also indicate that political theory should be used in future CG studies because this theory can further the understanding of how the environment (political, social, and economic) affects the effectiveness of the BOD in relationship to EM. Moreover, political theory focuses on the effectiveness of regulations in an environment of the unrest to protect businesses from the consequences of unstable situations. Political theory assumes that companies might resort to restructuring BODs and reforms in the governance structure to cope with an unstable political situation, especially in countries that suffer from a bad political situation. Thus, a necessity exists to look more deeply into the perspectives of political theory, which explains how the environment affects the role of CG and EM practices.

This current study conducted additional regression analysis by using deferent proxies of CG based on the PCCG to make the robustness check. The results of this analysis reported that there is no significant relationship between BOD size, CEO-nonduality, BOD meetings, BOD independence, AC size, AC independence, and AC financial expertise and EM. These results revealed that some companies were not strongly compliant with the PCCG (2009). Thus, these results raise the alarm for policymakers, the government, PEX and PCMA to shoulder their responsibilities towards encouraging the firms listed on PEX to follow the rules of the PCCG (2009). Furthermore, they should reform and update PCCG which was issued in 2009.

This research is among the very few studies conducted in developing countries that have addressed the signed DAC as a proxy of EM. Furthermore, this research is the first one addressed signed DAC in Palestine. The absolute value of DAC is the most common proxy and refers to the magnitude of EM, whether negative or positive DAC. The sign of the DAC refers to the direction and the type of transaction manipulation. This strategy was used in this study to create a deeper understanding of the Palestinian context.

Interestingly, this study highlights that 60% of the non-financial listed firms' practices EM were income-increasing, while 40% of the companies engaged in EM by income-decreasing activities. Thus, the non-financial companies in Palestine manipulate reported earnings abnormally to enhance a company's financial performance, which, in turn, might mislead stakeholders. This implies that PEX and PCMA should implement strict regulations when reviewing the Palestinian Code of Corporate Governance.

The finding revealed a significant and positive relationship between political instability and negative DAC. Thus, strong evidence exists that political unrest is related to a high level of income-decreasing DAC, which makes Palestinian companies more conservative in reporting their earnings to avoid bad performance in the upcoming years after a severe crisis. Furthermore, companies may report less earnings to avoid taxes or to get the benefits of the donations and facilities from the government during a period of a severe crisis. So, policymakers, PEX, and the government should be aware of this to force listed firms to disclose the real income and utilize moderate conservatism policies, especially during in unstable situation.

This study is the first conducted in Palestine to examine the influence of political instability comprehensively. Some CG mechanisms were not sufficiently effective in

mitigating EM during political instability periods. So, regulators and the PEX should consider that the CG system needs to be improved in Palestine to enhance the control of management and lead them to practice less EM during a politically unstable situation. Some findings revealed that management might prefer ineffective BODs rather than effective ones to maximize a company's profitability and inflate future earnings until the economy recovers. This means that these mechanisms constitute good motivation for the management to not engage in more EM to maintain a firm's reputation and avoid potential penalties that auditors, the PEX, and regulators can impose on a company. Furthermore, this study provides supporting evidence that the characteristics of the AC improve over time. This implies that adding more non-executive members and more financial experts to AC may be better for improving its mentoring function that, in turn, boost the quality of financial reports by mitigating EM activities.

6.4 Limitations of the Study

This study achieved the six objectives that were determined in the first chapter. Although the study fulfilled its objectives and made some practical and theoretical contributions, but this study still has some limitations as mentioned below:

First, this study was conducted by addressing the non-financial sector which involves industries, services, and investment firms listed on PEX. Hence, it is impossible to generalize the results of the current study to banks and insurance companies, which comprise the financial sector in PEX. These companies were excluded due to their different items in their financial reports and different measurements of EM. Furthermore, the code imposed on financial companies has more strict and mandatory rules than the PCCG (2009).

Second, the study's sample was relatively small compared to other research because of the limited number of companies listed on the Palestine Exchange, as there are 48 companies listed in Palestine. The fifteen financial companies listed on the stock exchange were excluded so that only thirty-three companies remained.

Third, the data for this present study were gathered from the annual financial reports available on the Palestine Exchange website. Four of thirty-three companies were excluded due to lack of financial reports for some years related to the study period, so that the final sample was 29 listed companies listed with 232 firm-year observations.

Four, this study also faced a major limitation due to poor disclosure in the available financial reports. This included the number of AC meetings, the BOD ownership, family ownership, managerial ownership, audit fees, and non-audit fees, the full CVs of the members of BOD and the members of executive management, and others, which reduced the number of variables necessary for a subject such as corporate governance.

Finally, this research relied on the quantitative approach by collecting, analyzing financial data, and interpreting the results. The qualitative approach that is very important in human science research was not used due to geographical and political constraints that prevented access to the leading listed companies' headquarters to conduct interviews with heads of companies and directors of the Palestine Exchange. These companies and the headquarters of the Palestine exchange are in Nablus city in the West Bank. Therefore, it was not possible to study the variables of CG and their impact on EM by using a qualitative research method in addition to the quantitative approach.

6.5 Recommendations for Future Research

Based on the results of the current study and the limitations related to its conduct, this study contains recommendations for future research that could be useful to Palestine and other neighboring and developing countries as well.

First, the PCCG was issued in 2009. The Palestinian Monetary Authority (PMA) was not satisfied with the implementation of the PCCG and issued a stricter code in 2014 and forced banks operating in Palestine to implement the new code to strengthen the Palestinian banking system. Therefore, it will be useful for future studies to study the effect of a new code of CG on EM in the financial sector in Palestine.

Second, this study was conducted in the Palestinian context, which has an unstable political and economic situation. This study recommends investigating the association between CG mechanisms and EM in different countries and environments. More specifically, future researchers can investigate the validity of this current study model to other contexts such as MENA states at different periods and with a larger population and sample.

Third, the results of using the moderate variable of political instability provide valuable information for researchers in searching for moderating variables to control the relationship between CG and EM. Therefore, future studies should consider the political situation as a moderating variable between CG and other dependent variables such as financial performance, corporate social responsibility (CSR), and disclosure quality to investigate in the Palestinian context. Also, this study suggests other moderating variables between the mechanisms of CG and EM, for example, institutional ownership, ownership concentration, foreign ownership, and the quality of the external audit. Furthermore, the geographic location could serve as a moderating variable

between the association of CG and EM in Palestine due to the division between the West Bank and the Gaza Strip.

Fourth, this study relied on a panel data approach, which is robust in terms of longitudinal data analysis. However, this approach sometimes fails to capture unique behaviors in the model. Consequently, other studies may also consider using an interview and questionnaire approach for collecting data to explore this issue from other perspectives. Furthermore, future studies may use the Generalized Method of Moments (GMM) to analyze data instead of using OLS Regression Models, which were addressed in this study.

Fifth, per prior literature, this study constructed a composite measure as a proxy to measure the BOD quality and AC quality and investigate their relationship with EM. A future study could also establish a composite measure of ownership structures in one aggregate measure, which might represent its quality to explore its relationship with EM, firm performance, and other related topics.

Finally, today, the world suffers from a severe pandemic, the Coronavirus (COVID_19), which has quarantined all countries worldwide and isolated them from each other, which would affect the entire global economy. Therefore, this study suggests considering the COVID_19 pandemic and its devastating effects in conducting future studies in the areas of corporate governance, disclosure, manipulation of financial reporting, financial performance, and the performance of financial markets.

6.6 Chapter Summary

Ultimately, this study provided unique evidence from Palestine as a developing country suffering from an unstable economic and political situation. Therefore, the Palestinian environment was a strong incentive for conducting this type of study, where

the relationship of CG mechanisms with EM was examined. Accordingly, the association between the characteristics of CG (the characteristics of the BOD, the AC, and the OS) and EM was studied in addition to examining the role of the effectiveness of the BOD, as well as the AC in minimizing the unwanted effects of EM. Moreover, the extent of the impact of the unstable political situation on EM was investigated. The political situation also has been used as a moderator variable to illuminate the relationship between the effectiveness of the BOD and the AC in mitigating EM during the unstable political situation.

The results of the study indicate that the relationship between CG effectiveness and EM is not very strong in Palestine, especially in the listed non-financial companies used a study sample. This may be because the listed non-financial companies do not follow the CG guidelines very carefully in the early years of the sample period or the period of severe political instability. The findings of this current research have important implications for applying proper CG mechanisms for companies across developing and emerging countries, such as the case of Palestine. The results of this study noted, through the results of statistical analysis, that companies that comply with good CG practices are less likely to engage in EM practice that negatively affects the quality of financial reports. In theory, this means that good CG practices reduce agency costs. Thus, this implies that companies in the developing world can enhance the reduction of EM by implementing good CG practices. However, the findings of this study indicate that not all CG indicators significantly affect the mitigation of EM practice in Palestine.