

THE IMPACT OF CORPORATE GOVERNANCE MECHANISMS ON DISCLOSURE QUALITY: EVIDENCE FROM COMPANIES LISTED IN THE PALESTINE EXCHANGE

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Abstract

Corporate governance plays an important role in disclosure quality. The objective of this study is to examine the relationship between corporate governance mechanisms and disclosure quality for the companies listed in Palestine Exchange. The corporate governance variables tested in this study are a) board size, b) board ownership, c) board compensations, d) role duality, e) number of board meetings, f) audit committee size, and g) auditor type. Disclosure quality is measured by discrimination accruals. Our results indicate that while board size, board ownership and auditor type, affect disclosure quality positively, role duality, board compensations and audit committee size have a negative impact on disclosure quality. This study is important for the Palestinian context because it improves the disclosure quality of the companies.

Keywords: Corporate governance mechanisms, board size, role duality, disclosure quality, developing country, Palestine Exchange

INTRODUCTION

Corporate governance (CG) was established to resolve the agency problem (Jensen & Meckling, 1976). It affects the integrity of the firms' activities since the way in which the firm is managed may have an influence on the firms transparency and its performance (Beekes, 2006). According to Fung (2014), corporate governance aims to reduce unconscionable corporate practices and preserve a fair business environment. The study adds that poor corporate governance is viewed as risky, whereas, stakeholders view good corporate governance as a sign of a strong corporation.

CG has received much interest due to numerous corporate failures in several countries across the world (Okpala, 2012). The strength of corporate governance systems and the quality of its disclosures are becoming increasingly important because stakeholders are paying more attention to what and how it is reported (Bushman & Smith, 2003).

The primary objective of financial reporting is to provide high-quality financial information concerning an economic entity. Financial reports are useful for economic decision making. Corporate governance mechanisms are necessary for additional transparent information disclosure about the corporation. (Htay, Said, & Salman, 2013). Thus, stakeholders demand better financial reporting and corporate transparency since additional effective corporate governance practices lower the stakeholders' uncertainty towards the corporations' investment decisions (Beest, Braam, & Boelens, 2009). Stakeholders are interested in firms' disclosures. Disclosure quality is a vital attribute for related parties in order to be able to ensure that the financial reports reflect the firm's reliability and reduce any asymmetry of information.

A serious debate with regard to the relationship between corporate governance mechanisms and financial information quality exists in both developed and emerging markets (Klai & Omri, 2011). Palestine, as a developing country, needs to attract investments and enhance its business sector. Therefore, it is important for Palestinian corporations to be concerned about the quality of their financial disclosure. Palestine Capital Market Authority (PCMA), as a supervisory body, seeks to ensure the availability of high-quality financial information to the users of such information. Since its establishment in 2004, (PCMA) has sought to implement appropriate corporate governance mechanisms and transparency rules to improve the quality of the financial reports.

The purpose of this study is to examine the influence of corporate governance mechanisms on disclosure quality. A panel data of 49 companies listed in the Palestine Exchange (PE), from 2005 to 2016, was collected to achieve the goals of this study. It is noteworthy to address this issue in Palestine as most previous studies in Palestine have focused on the relationship between corporate governance and firms' performance (Abdelkarim

& Alawneh, 2009; Dwaikat & Queiri, 2014; Kutum, 2015). Following the previous accounting literature, corporate governance mechanisms are measured in this study using seven indicators (i) board size, (ii) role duality, (iii) audit committee size, (iv) auditor type, (v) board ownership, (vi) board compensations, (vii) and frequency of board meetings. On the other hand, disclosure quality is measured via discrimination accruals. The contribution of this study to the existing literature on corporate governance in Palestine is twofold. Firstly, the study addresses the relationship between corporate governance mechanisms and disclosure quality for the companies listed in Palestine Exchange. Secondly, a new approach is used to measure the disclosure quality in Palestine for the companies listed in Palestine Exchange.

The rest of this study is organized as follows; the next section provides a review for the previous studies; addressing the relationship between corporate governance mechanisms and disclosure quality. The third section discusses the research methodology. Finally, the fourth section presents the results and findings of the study.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The accounting literature comprises several studies that assert the importance of the availability of high quality financial reporting (i.e. high quality disclosure) and the significant role of corporate governance mechanisms in enhancing such quality. Many studies (Abadi & Janani, 2013; Pucheta-Martinez & Fuentes, 2007; Salehi & Shirazi, 2016) indicated that the aim of financial reporting is to provide reliable information to different users whether they are internal or external, in time and effectively. Managers of companies should be careful about the quality of information presented in the financial reports which are considered as one of the main tools in communicating information to the stakeholders. Moreover, the quality of the financial information is affected by the nature of disclosure. In accounting, disclosure and information quality are inseparable. According to Abadi and Janani (2013) the quality of accounting information substantiates the reliability and accuracy of the disclosure.

Disclosure quality is considered as the main concern that assists shareholders to exercise their rights and make decisions. Muhamad and Shahimi (2009) argued that the presence of a strong disclosure regime promotes real transparency. It is a main tool used to oversee the companies in the capital market. It is useful in protecting investors, attracting capital and maintaining confidence in the capital markets. On the other hand, the weakness of disclosure and non-transparent practices lead to the loss of the integrity of the market. This entails huge costs not only for the company and its shareholders, but also for the economy as a whole. As such, shareholders and potential investors require accurate, relevant and comparable information to enable them to make informed decisions. As a result, the lack of clear and

adequate information hinders the ability of the markets to work efficiently, which also increases the cost of capital (Fung, 2014). The relationship between accounting information and the cost of capital and firm performance has manifested to become an essential and fundamental topic in the accounting literature. Botosan (2006) argued that information reduces cost of capital by decreasing the estimation risk of investors.

Lambert, Leuz, and Verrecchia (2005) claimed that the level of disclosure depends on the company's choice. Companies' management can either decide to only conform to the mandatory requirements of disclosure, or they can decide to disclose extra information. According to Beyer et al. (2010), the reasons for mandatory disclosure are not very apparent.

The quality of financial statements disclosure is an important component of corporate governance framework. High disclosure quality is vital to protect the rights of the shareholders and other outsiders who don't have firsthand knowledge about the firm's performance (Patel, Balic, & Bwakira, 2002). Ali, Said, Abdullah and Doud (2017) in their study discussed there is a several researches mentioned that organizational culture enhance the performance of the organization. Corporations' managements are required to provide the users of their financial statements with high-quality effective information. Many empirical studies investigated the relationship between corporate governance and the quality of financial reports in several markets. Evidence on the correlation between the two variables is provided by the literature in several different environments.

In a study conducted in the Australian Stock Exchange, Beekes (2006) found that better governed companies make more informative disclosures. The same conclusion was achieved by Ali (2006) and Gois (2008). According to Ali (2006), the independence of directors of companies listed in the French Stock Market leads to more disclosure quality, while the ownership concentration and family firms leads to poor disclosure quality. Gois (2008) found that the board size of the companies listed on the Portuguese Stock Exchange has a positive impact on the quality of the companies' financial disclosure. Klai and Omri (2011) studied the relationship between corporate governance and the quality of financial reports for the companies listed in Tunis Stock Exchange. They concluded that block ownership reduces the quality of financial reports. In similar studies, Htay, Said and Salman (2013) found that corporate governance has better influence on the disclosure quality of the Malaysian public listed banks due to the separation of board leadership structure, higher portion of independent directors, higher board size and low ownership concentration. In turn, Torchia and Calabro (2016) found that disclosure quality reduces information asymmetries, increases transparency and reduces the cost of capital. The study also found that while board independence has a positive effect on transparency and disclosure quality, board size and CEO duality have a negative effect.

Information is the lubricant that makes the economic engine work smoothly. As such, the information included within the financial report must be well prepared and contain high level of accuracy. Attar (2016) investigated the impact of corporate governance level on the disclosure quality for the commercial banks listed in Amman Stock Exchange. They found that corporate governance practices have a positive impact on firm disclosure quality. Information asymmetry arises when one of the two parties has more information than the other. The high level of disclosure quality is useful for the firm because it reduces the cost of capital. Soheilyfar (2014) investigated the influence of corporate governance mechanisms on firms disclosure quality for the firms listed in the Tehran Stock Exchange. They found a significant relationship between corporate governance and disclosure quality.

In previous studies, several corporate governance mechanisms were used to examine the relationship between corporate governance and disclosure quality. **Board size** is one of these mechanisms. As discussed by Florackis and Ozkan (2004), boards with more than seven or eight members are unlikely to be effective. The smaller the board size is, the better the communication and coordination are (Yoshikawa & Phan, 2003). This will result in better disclosure quality. This finding is supported by Byard, Li, & Weintrop (2006). In contrast, Lakhali (2005) found the opposite. Accordingly, our first hypothesis is:

H₁: There is a relationship between board size and disclosure quality.

Another mechanism of corporate governance is **role duality**. CEO and board chairperson should not be the same person in order to create pressure on the top management to have better disclosure quality of the annual report. Otherwise, the same person will monitor his own performance, and consequently the effectiveness of board would be diminished. Hence, it can be asserted that better disclosure quality can be achieved by having separate board leadership structure (Htay et al., 2013). On the same line, Ho and Wong (2001), Byard et al. (2006) and Huafang and Jianguo (2007) indicated that a positive relationship exists between separate leadership structure and information disclosure. This is in line with the theoretical expectation. Notwithstanding, Hashim and Devi (2008) found that separate leadership structure is not associated with disclosure quality. Subsequently, our second hypothesis is:

H₂: There is a relationship between role duality and disclosure quality.

The third mechanism of corporate governance in the accounting literature is **audit committee size**. Previous studies provided mixed evidence about the impact of audit committee size on disclosure quality. Xie, Davidson, & DaDalt (2003) and Abbott, Parker, & Peters (2004) found no relationship between the audit committee size and financial reporting quality. On the other hand, Yang and Krishnan (2005) found that audit committee size influence disclosure quality negatively. Whereas Pucheta-Martinez and Fuentes (2007) concluded that audit committee size

positively influences the quality of financial reporting in the Spanish context. This implies that a certain minimum number of audit committee members may be relevant to quality of financial reporting. Based on the above, it is reasonable to propose that:

H₃: There is a relationship between audit committee size and disclosure quality.

The fourth corporate governance mechanism considered in this study is **auditor type**. The type and the size of the audit firm are the proxies for the extent of disclosure and its quality. According to Haniffa and Cooke (2002), big four audit firms are more likely to influence companies to disclose additional information and provide reliable financial reports. The fourth hypothesis of this study is:

H₄: There is a relationship between auditor type and disclosure quality.

Board ownership is widely used in the literature as one of the corporate governance mechanisms. According to Kim and Lee (2003), board ownership and block shareholders may benefit from their voting power to go for their trusted person to be appointed as a CEO or board member. Concerning the block shareholders, additional information disclosure might not be necessary because they can access the inside information through their proxies, i.e. their selected CEO and board members. They might even want to harbor some of the information to protect their interests. Therefore, a negative relationship between ownership and disclosure is expected. This is supported by Lakhali (2005). On the other hand, Chau and Gray (2002), Luo, Courtenay, and Hossain (2006) and Huafang and Jianguo (2007) found that ownership concentration has a positive influence on disclosure quality. Accordingly, our fifth hypothesis is:

H₅: There is a relationship between board ownership and disclosure quality.

Board compensation is an important mechanism of corporate governance. It is argued that compensations motivate board members to act in the best interest of shareholders. There are several studies that examined the impact of board compensations on disclosure quality. Alhazaimah, Palaniappan and Almsafir (2014) and Chiang and He (2010) found a positive association between board compensations and disclosure quality. The hypothesis on the relationship between board compensations and quality disclosure is presented below:

H₆: There is a relationship between board compensations and disclosure quality.

Our last mechanism of corporate governance that is frequently used by the researchers is the frequency of **board meetings**. Academic literature provides empirical evidence on the impact of the regularity of board meetings on the disclosure quality. Laksmana (2008) and Karamanou and Vafeas (2005) found that the frequency of board meetings is positively related to the disclosure quality. Therefore, the next hypothesis states that:

H₇: There is a relationship between the frequency of board meetings and disclosure quality.

RESEARCH METHODOLOGY

This study aims to examine the effect of corporate governance mechanisms on disclosure quality. A panel data was collected from the annual reports of the Palestinian companies listed in the PEX covering the period from 2005 to 2016, the researchers used a panel data for twelve years because panel data provide more informative data, more variability, less collinearity among the variables, more degrees of freedom and more efficiency. And also panel data are better able to identify and measure effects that are simply not detectable in pure cross-section or pure time-series data (Jager, 2008). The independent variables in this study are the corporate governance mechanisms related to the Palestinian companies listed in the PEX. Consistent with prior studies, we use several variables as shown in table 1. The table illustrates the variables used and their measurements. It also refers to studies in which these measurements are used.

Table1: Independent variables

Variable	Measurement	References
Board size (BOS)	Number of board of directors selected by shareholders.	Huniffa and Hudaib(2006) Manzaneque <i>et al.</i> (2015)
Board ownership (BO)	The percentage of shares owned by the board of directors.	Amba (2013) Manzaneque <i>et al.</i> (2015)
Board compensations (BC)	The compensations paid to board members	Vo and Phan(2013) Abdullah(2004)
Role duality (RD)	Dummy variable if the chairman and the CEO is the same person "0" otherwise "1"	Amba (2013) Marn and Romuald (2012)
Number of meetings (NOM)	The number of board of directors meetings during the financial year.	Coleman (2007) Salim <i>et al.</i> (2014)
Audit committee size (ACS)	The number of the audit committee members.	Akbar <i>et al.</i> (2016) Darko <i>et al.</i> (2016)
Auditor type (AT)	Dummy variable "0" if the external auditor is one of the big four otherwise "1"	Haider <i>etal.</i> (2015) Foroughi & Fooladi(2011)

The dependent variable of this study is the disclosure quality (DQ). In general, the quality of financial reports can be measured by the availability of qualitative characteristics of the accounting information (reliability and relevance). Due to the impossibility of finding a direct quantitative scale for these characteristics, and following other studies (Beest et al., 2009), the quality of financial reports is measured by the degree to which companies practice earnings management. We propose that higher disclosure quality is associated with lower earnings

management practices. Since disclosure quality is derived from the quality of earnings disclosed in the financial reports, earnings management is measured by the discrimination accruals. This is in line with Bedard, Marrakchi and Courtean (2004) and Collins and Haribar (2002).

Based on this view, the higher the level of discretionary accruals accounting, the greater is the distance between economic performance and the results shown in the financial reporting. Thus, the higher the accounting manipulation, the lower is the quality of the financial information presented by the company (W.Collins & Haribar, 2002).

Research model and analytical procedure

Consistent with previous literature (Ali, 2006; Htay et al., 2013; Soheilyfar, 2014), we developed the following model to investigate the effect of corporate governance mechanisms on disclosure quality.

$$DQ_{it} = \alpha + \beta_1 BOS_{it} + \beta_2 BO_{it} + \beta_3 BC_{it} + \beta_4 RD_{it} + \beta_5 NOM_{it} + \beta_6 ACS_{it} + \beta_7 AT_{it} + e_t$$

Where:

DQ presents disclosure quality for companies, which is measured by discrimination accruals,

BOS is the board size for these companies,

BO is the board ownership,

BC is the board compensations,

RD is the CEO duality (i.e. whether the CEO and the chairman is the same person),

NOM is the number of board meetings during the financial year,

ACS presents the size of the audit committee,

AT is the auditor type (i.e. if it is one of the big four or not), and

β_{1-6} is the coefficient of the variables.

The data obtained needs to be analyzed and explained to be useful to meet research objectives and answer its questions. The researchers used descriptive statistics to portray the basic characteristics and summarize a given set of data as following. First, the researchers describe the mean, standard deviation, median, minimum value, maximum value, skewness, kurtosis and Jarque-Bera for each variable of the study. Secondly, The Pearson correlation matrix used to check if there is a multicollinearity problem between the independent variables and to measure the power and the direction of correlation between independent and dependent variables. Thirdly, to test the stability of the data, the Unit Root Test has been used. This test links the time series information and cross-section data information to each other. Finally, due to non stationary paneled data Generalized Method of Moment (GMM) was used to test the hypotheses of the study.

RESULTS AND DISCUSSION

Descriptive statistics

The first variable, audit committee size (ACS) has a mean of 3.13 with maximum value of 6 and minimum value of 3 and the standard deviation is 0.54. Auditor type (AT) is the second corporate governance mechanism. It is a dummy variable. It takes “0” if the external auditor is one of the big four, otherwise it takes the value “1”. IT has a mean of 0.12 and S.d of 0.33. With regards to Board compensations (BC) which is measured by the amount of money given to board members, it has a mean of 143,040 with maximum value of 1,167,800 and minimum value of 2000. On the other hand, its S.d. is 211,968. The fourth corporate governance mechanism is Board ownership (BO). This variable is measured by the percentage of shares owned by the board. The mean of BO is 0.58 with maximum value of 0.97 and minimum value of 0.05. Its standard deviation is 0.20. Similarly, Board size (BOS) it has a mean of 9.1; with maximum value of 13 and minimum value of 5. Its S.d is 1.82. The sixth corporate governance mechanism role duality (RD) is a dummy variable. If the chairman and the CEO is the same person, it is represented with a “0” otherwise “1”. It has a mean of 0.66 and S.d of 0.48. The last corporate governance mechanisms number of meetings (NOM) measured with the number of board of directors’ meetings during the financial year. It has a mean of 6.21 with a maximum value of 13 and minimum value of 3. While it’s S.d is 1.84. According to Jarque Bera test all corporate governance mechanisms are not normally distributed. The dependant variable is the disclosure quality (DQ), which is identified as the degree to which a firm practices earning management. It is measured by discrimination accruals. This variable has a mean of 2,250,191 with a maximum value of 24,772,778 and minimum value of -43,581,999. The S.d is 8,574,305. And also the P-value probability of Jarque-Bera test is 0.00 which means that the variable is not normally distributed.

Table 2: results of descriptive statistics of variables study (observations 295)

Measure	ACS	AT	BC	BO	BOS	RD	NOM	DQ
Mean	3.13	0.12	143,040	0.58	9.10	0.66	6.21	(2,250,191)
Median	3.00	-	68,000	0.56	9.00	1.00	6.00	(768,480)
Maximum	6.00	1.00	1,167,800	0.97	13.00	1.00	13.00	24,772,778
Minimum	1.00	-	2,000	0.05	5.00	-	3.00	(43,581,999)
Std. Dev.	0.54	0.33	211,968	0.20	1.82	0.48	1.48	8,574,305
Skewness	2.27	2.31	3	0.04	(0.18)	(0.66)	2.17	(2)
Kurtosis	13.04	6.33	12	2.29	2.28	1.44	10.01	11
Jarque-Bera	1491.38	398.81	1327.48	6.22	7.87	52	836	1132.43
Probability	0.00	0.00	0.00	0.04	0.02	0.00	0.00	0.00

Multicollinearity

In the second part of this section the researchers discuss multicollinearity issues between independent variables and the measurement of the power and direction of the relationship between independent and dependent variables.

Table 3 shows the correlation between all the independent variables and the dependant variable. The correlation between the independent variables (corporate governance mechanisms) is less than 80%, the highest correlation was between audit committee size and board compensation which amount to 40.20%. Accordingly, there is no multicollinearity problem between the independent variables. The results show that the relationship between board size (BOS) and disclosure quality (DQ) is negative and insignificant. This means that when the number of board members increases, the disclosure quality decreases. This result confirms the results of several prior studies, such as, Abata and Migiro (2016), Ibadin and Leslie (2015) and Chalaki, Didar and Riahinezhad (2012). The same result is found with regard to the relationship between board ownership (BO) and disclosure quality (DQ). The relationship is negative and insignificant. This means that when the number of shares owned by board members increases, the disclosure quality will decrease. This finding is consistent with the study by Chalaki et al. (2012) for the companies listed in Tehran Stock Exchange (TSE). Notwithstanding, a positive insignificant relationship between board compensation (BC) and disclosure quality (DQ) is found. When the board compensation increases, the disclosure quality will also increase, and vice versa. This result is inconsistent with Alhazaimeh et al (2014) and Chiang and He (2010) who found a positive association between board compensations and disclosure quality.

The correlation between role duality (RD) and disclosure quality (DQ) which equals 0.122 indicates that a positive and significant relationship between the two variables exists. This suggests that, when the positions of the chairman and the CEO are separated, the disclosure quality will increase. This result is compatible with Holtz and Neto (2014) and by Fodio, Ibikunle and Oba (2013) in the Brazilian and the Nigerian contexts, respectively. This result suggests-to separate chairman and CEO positions and don't allow for one person hiring the tow positions. The same positive and significant relationship between number of board meetings (NOM), audit committee size (ACS), and auditor type (AT) from one side, and disclosure quality (DQ) from the other side is reached. This means that when the number of board meeting increases, the disclosure quality will also increase, and vice versa. This result is confirmed by the results of Fathi (2013) for French listed companies and encourage for making a continuously meetings. Furthermore, when the member of audit committee increase the disclosure quality will also increase, and vice versa. This result stand out the importance of the audit committee size in

improving the disclosure quality. It is consistent with Nuraini (2015) in her study for the companies listed in Indonesian Stock Exchange.

Finally, our results indicate that if the external auditor is one of the big four audit firms, the disclosure quality will increase. This result approves the importance of auditor type in improving the disclosure quality. Our finding is consistent with the result by Haniffa and Cooke (2002) for Malaysian listed corporations.

Table 3: Pearson correlation matrix between corporate governance and disclosure quality

Variables	BOS	BO	BC	RD	NOM	ACS	AT	DQ
BOS	1							
Sig (2tailed)								
BO	-.079	1						
Sig (2tailed)	.084							
BC	.090	-.235**	1					
Sig (2tailed)	.076	.000						
RD	.007	.182**	-.169**	1				
Sig (2tailed)	.874	.000	.001					
NOM	-.032	-.243**	.224**	.122**	1			
Sig (2tailed)	.489	.000	.000	.008				
ACS	.149**	-.126*	.402**	-.151**	.168**	1		
Sig (2tailed)	.006	.020	.000	.005	.002			
AT	-.123**	-.337**	-.224**	-.014	.164**	-.105	1	
Sig (2tailed)	.007	.000	.000	.757	.000	.053		
DQ	-.070	-.043	.004	.122**	.157**	.116*	.147**	1
Sig (2tailed)	.127	.351	.939	.008	.001	.032	.001	

*, ** significant at 5% and 1% respectively

The unit root test

Stationary of the study variables (dependents and independents) was tested using the Augmented Dickey-Fuller (ADF) test. Results of the ADF test, at the level, indicate that all variables are not stationary which lead to the fact that the unit root null hypothesis can't be rejected. The variables were then tested at the first difference. The results show stability of the data for all variables except for the independent variable auditor type (AT), which was stationary at the second difference. Table 4 shows the results of P-Values of ADF for all variables at the level, first difference and second difference.

Table 4: Results of Augmented Dickey-Fuller test for Unit root

Variable	Level		First Difference		Second Difference	
	ADF statistics	P- Value	ADF statistics	P- Value	ADF statistics	P- Value
BOS	41.96	0.9629	98.67	0.0012		
BO	72.47	0.6554	134.71	0.0000		
BC	63.99	0.4063	100.93	0.0000		
RD	19.45	0.4924	54.05	0.0001		
NOM	53.88	0.1983	97.25	0.0000		
ACS	22.40	0.2145	37.76	0.0042		
AT	6.12	0.9631	17.58	0.2263	22.94	0.0612
DQ	81.07	0.3834	185.46	0.0000		

The impact of corporate governance mechanisms on disclosure quality

Generalized method of moment (GMM) is used to test the study hypotheses through first difference with one lagged dependent variable, allowing for the modeling of a partial adjustment mechanism. Table 4 shows the results of testing the relationship between corporate governance mechanisms and disclosures quality (DQ) by generalized method of moment (GMM). The test is conducted at first difference by entering the dependant variable disclosure quality (DQ) as the instrumental variable. According to J-statistic of (23.68) and p-value of (0.5939), the model is fit and suitable to be tested.

From table 5, it can be seen that the coefficient of the board size (BOS) is 61542 with P-value of 0.0026. This means that the relationship between the two variables is positive and significant. The number of board members influences the disclosure quality positively, i.e. when the number of board members increases, the disclosure quality will also increase, and vice versa. This finding is in accordance with Gois (2008) in Portuguese context.

As noticed in table 5, the coefficient of the CEO duality (RD) is -3136590 with P-value 0.0000. This means when the position of the chairman and the CEO are the same, the relationship between the two variables is negative and significant. The role duality influences the disclosure quality negatively. This finding is consistent with the result of Holtz and Neto (2014) and Fodio et al. (2013). Additionally, coefficient of the audit committee size (ACS) is -219502 with P-value 0.0000. Thus, this relationship is negative and significant. The ACS influences the disclosure quality negatively. When the number of audit committee increases the disclosure quality will decrease. This result is similar to the results of Yong and Krishnan (2005).

Similarly, based on the results presented in Table 5, the relationship between the auditor type (AT) and disclosure quality is positive and significant. When the external auditor is one of

the big four audits, this will influence the disclosure quality positively, i.e., the disclosure quality will increase. This is in accordance with Haniffa and Cooke (2002). From table 5, the coefficient of the board ownership (BO) is (26450198) with P-value 0.0000. This means that the relationship between the two variables is positive and significant. Board ownership of equity is influencing the disclosure quality positively, i.e. when the board members ownership increase the disclosure quality will also increase. This result is associated with Luo et al. (2006) in Singapore and Huafang and Jianguo (2007) in China.

Table 5 shows that the coefficient of the board compensations (BC) is -2.8856 with P-value 0.0000. Accordingly, the relationship between the two variables is negative and significant, i.e, board compensation is influencing the disclosure quality negatively. When the compensations of board increase the disclosure quality will decrease. This result contradicts Alhazimeh et al. (2014) and Chiang and He (2010) who concluded that board compensations affect disclosure quality positively. From the same table, one can notice that the coefficient of the frequency of board meetings (NOM) is -149601 with P- value 0.1845. This means that the relationship between the two variables is negative and insignificant. The frequency of board meetings does not influence the disclosure quality. This finding is incompatible with Karamanou and Vafeas (2005) and Laksmana (2008) who found that the frequency of board meetings have positive impact on disclosure quality.

Table 5: results of relationship between corporate governance mechanisms and disclosure quality generalized method of moment (GMM).

Variables	Coefficient	Std. Error	t-Statistic	Prob.
DQ(-1)	0.177411	0.001134	156.4568**	0.0000
BOS	61542.64	20195.3	3.047375**	0.0026
BO	26450198	264294.5	100.0785**	0.0000
BC	-2.88563	0.237435	-12.1534**	0.0000
RD	-3136590	48281.39	-64.9648**	0.0000
NOM	-149601	112398.4	-1.33099	0.1845
ACS	-219502	24249.37	-9.05188**	0.0000
AT	11506792	1137453	10.11628**	0.0000
Effects Specification		Cross-section fixed (first differences)		
Mean dependent var	67910.47	S.D. dependent var	3798898	
S.E. of regression	4948377	Sum squared resid	5.58E+15	
J-statistic	23.68617	Instrument rank	34	
Prob (J-statistic)	0.593905			

** Significant at 1%

CONCLUSION

Financial reports are the most important source of information for stakeholders who use them for decision making. Low quality financial reports may lead to suboptimal decision. In this study we examine the impact of corporate governance mechanisms on financial reporting quality. The study performed content analysis of the annual reports for the companies listed in Palestine Exchange from 2005 to 2016.

By performing panel data GMM, the researchers found that board size, auditor type and board ownership have positive impact on disclosure quality. On the other hand, role duality, audit committee size and board compensations are affecting disclosure quality negatively. Nonetheless, the frequency of board meeting is not associated with the disclosure quality. Our findings are not only important for stakeholders who use the financial information, but they also facilitate legislators to understand about the quality of financial disclosure and what should be taken to improve its quality. The findings contribute to the academicians to further extend the research in this area, the investors to make the investment decisions, and the regulators and policy makers to draft further rules and regulations with regards to disclosure quality.

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