

Arab American University Palestine Faculty of Graduate Studies

The Effect of Capital Structure on the Performance of the Nonfinancial Corporation that listed on the Palestine Exchange (PEX)

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Declaration

I declare that the content of this thesis is my own research work, unless otherwise referenced. I certified that this thesis does not contain any material published before by another person or has been submitted elsewhere for any degree or qualification.

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Data: October 20, 2018

Dedication

To my dear father ... May God prolongs his life and provides him with good health and wellness.

To my sweet, mother who enlightens me by her calls.

To my dear brothers and sisters.

Moreover, to all my teachers and colleagues.

To the Arab American University incubator of creativity and science.

To all who contributed to the success of this message.

To all these people I dedicate this study

Researcher

Yousef Atef Yousef Amarneh

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I would like to thank my university - The Arab American University and the Faculty of Graduate Studies for giving me the opportunity to challenge my abilities and providing me with the knowledge to achieve such research.

I'm happy to specific my deep appreciation to my supervisor Dr. Zahran Daraghmeh for him well-considered recommendations and priceless support during the period of my study. I always impress by his academic ability and unique personality. The Effect of Capital Structure on the Performance of the Nonfinancial Corporation that Listed on the Palestine Exchange (PEX).

Abstract

This thesis aims to examine the impact of capital structure on the performance of nonfinancial corporations that listed on the Palestine Exchange (PEX). It also aimed to examine the impact of intermediate factors (firm's size, firm's age, industry type, firm's growth) on the performance of the non-financial corporations that listed on the Palestine Exchange. The impact of these factors examined by classifying the data into two portfolios according to the firm's size, firm's age, industry type and firm's growth. This study uses an empirical approach based on the previous studies, also study sample contains financial statements of the Palestinian corporations that listed on the Palestine Exchange for the period 2009 - 2016. In addition, a number of statistical tests were used: (descriptive statistics, Person's correlation coefficient and linear regression). 30 corporations were selected as a sample from three sectors (industry, services and investment).

This study reached many results as following:

There is insignificant positive impact of capital structure components on the performance of non-financial companies that listed on the PEX. Also, there is insignificant positive impact of equity on the performance of non-financial companies that listed on the PEX. The debt impact on the corporation's performance is high whenever the corporation's size is high. Because the high size companies can exploit

its debt greater than the low size companies. The debt and equity impact on the corporation's performance varies according to sector, the industrial companies can exploit the capital structure to achieve performance greater than investment and service sectors; and then the investment sector and the service sector failed to exploit the capital structure to maximize performance. The Company's growth variable hasn't impacted on the relationship between the capital structure and performance. The high age company can exploit its capital structure greater than the low age companies.

Recommendations:

1. The nonfinancial companies that listed on the Palestine Exchange are advised to use debt better to maximize the company's performance.

2. Companies have to develop of new strategies to use equity more efficiently and try to finance their projects by retained earnings to maximize their financial health.

List of abbreviations:

List of abbreviations		
PEX	Palestine Exchange	
E& L	Equity and Liability	
MM	Miller and Modigliani	
US	United State	
GDP	Gross Domestic Product	
ROA	Return on Assets	
ROE	Return on Equity	
MVBR	Market value to Book value of Equity Ratio	
SDTA	Short Tram Debt to Total Assets Ratio	
LDTA	Long Tram Debt to Total Assets Ratio	
TDTA	Total Debt to Total Assets Ratio	
TDTQ	Total Debt to Total Equity Ratio	
WACC	Weight Average Cost of Capital	
MBVR	Market Value of Equity to Book Value of Equity	
EPS	Earnings Per Share	
NP	Net Operation Income	
PSD	Dividend of Preferred Stock	
AIOC	Average Issued and Outstanding Common Stock	
LR	Debt Ratio	
TD	Total Debt	
ТА	Total Assets	
FS	Firm's Size	
SL	Sales of Firms	
LOG	The Nature Logarithm	
FA	Firm's Age	
S	Sales of Firms	

GF Growth of Firm

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Chapter One

Introductory

1.1 Introduction

The capital structure theory was introduced in 1958 by Modigliani and Miller after historical efforts. They examined the firm's value changing though changing its capital structure (Modigliani and Miller, 1958- 1963). The capital structure is defined as a mix of long term, short-term debt and equity. It has several options that the firm can use to finance its assets. The capital structure is a complex financial decision because of its interrelationships.

In addition, the capital structure is one of the main parameters of valuation and rating of corporations by capital markets. Nowadays in the current changing and evolving environment the rating of companies relies on many factors such as growth, capital structure and strategic planning required that enable the firm to select effective resources to achieve the goal of "shareholder (wealth maximization) (Drobetz, 2003).

The main objective of the corporation is maximizing shareholder wealth. This issue relies on an optimal combination of financial sources of a company. Moreover, financing decisions are the most important financial duties, the determination of the best combination of financial sources, and another purpose of a financial manager for taking such decision is maximizing corporate value and also in this regard, should determine where invest their financial sources. On the other hand, how to finance the company's assets is noteworthy and how much debt and stock the company use to finance its assets is important because this will influence on corporate financial decision and firm value (Ahmadpour, 2010).

The company cost of capital is seen as a function of its capital structure, choice of optimal capital structure or adequate and appropriate financing and investment, reduce company's cost of capital and increase its market value (Modarres, 2008), and thus will increase shareholder wealth. The capital structure of a company is a combination of debt and equity that make up the sources of corporate assets. The company, which has no debt, its capital structure is only equity. Different companies have different capital structure(Ahmadpour, 2010).

The financial sources of corporations based on their financial policies, which divided into two parts "internal financial sources", and "external financial sources ".Moreover, in external financing sources, a company fund from debt and stock (Titman and Grinblatt, 1998).

Any business, whether new or old, requires funding to carry out its activities. Funding is related to capital. Capital is also related to the means of funding a business. Internal and external sources are available for firms to increase funds for their activities. (Chechet, 2014).

Internal sources are defined as those funds which are generated from within an enterprise, while external sources are the funds which are generated from outside the entity. External financing may be increased by increasing the number of employers involved, by outright borrowing, or debenture issuance, bonds or other forms of debt instruments. Financial managers are interested in identifying the best financial mix(Chechet, 2014).

The above-mentioned discussions show that capital structure has a vital role in interpreting performance; accordingly, this thesis comes in order to provide evidence from the listed corporations on the PEX (Palestine Exchange) with respect to the influence of the capital structure on performance.

1.2 Problem Statement

Non-financial corporation that listed on the PEX depends on a blend of debts and equity sources to finance its economic resources. The previous literatures show that debt and equity mix should maximize the firm performance. For this reason, this thesis comes to evaluate the impact of capital structure on the performance of the listed non-financial corporation on the PEX. Also, it comes to explore the impact of the following contextual factor (firms size, firms age, firm's growth and industry type) on the specification.

This quantitative research will examine the effect of capital structure on the performance of the non-financial listed corporation on the PEX.

This thesis aims to answer the question "Is the capital structure of the nonfinancial corporation listed on Palestine Exchange has an impact on their performance?"

1.3 Research Objectives

This thesis comes to achieve the following objectives:

- **1.** To provide empirical evidence regarding the impact of capital structure on the performance of the listed non- financial corporation on the (PEX).
- 2. The result of this thesis will assist the investor in making rational decisions.

3. Provide live evidence from Palestine regarding the feasibility of debts comparing it with equity.

1.4 Significance of the Study

This following points show the significance of this thesis: -

- 1 This thesis is considered as one of the rare papers that examine the influence of capital structure on performance of the listed non-financial corporation in the PEX.
- 2. This thesis will suggest recommendations that assist the corporation to formulate optimal capital, which will enhance the performance.
- 3. This thesis will find out the formulation capital structure weaknesses of Palestinian corporations.

1.5 Limitation of the Study

- 1. There is a limited number of non- financial corporations that listed on the PEX (the sample of this study is small sample).
- 2. The financial corporations were excluded.

1.6 Study Model

Illustrated below the graphical presentation of the association between dependent and independent variables. Moreover, the moderate variables.



Source: The author

1.7 Null Hypotheses

This thesis comes to examine the following Null hypotheses: -

Hypothesis One: -

 H_1 : There is no effect of capital structure formulation on the performance of the nonfinancial firms that listed on the PEX.

This hypothesis consists of two sub hypotheses: -.

 H_{1-1} , There is no impact of debts on the performance of the non-financial corporations that listed on the PEX.

 H_{1-2} : There is no impact of equity on the performance of the non-financial corporations listed on the PEX.

Hypothesis Two: -

 H_2 : There is no impact of (firm's size, industry type, firm's growth and firm's age) on the relationship between capital structure components and the performance of the listed corporations on the PEX.

This hypothesis was divided to the following four sub-hypotheses.

 H_{2-1} : There is no impact of firm's size on the relationship between capital structure components and the performance of the listed corporations on the PEX.

 H_{2-2} : There is no impact of industry type on the relationship between capital structure components and the performance of the listed corporations on the PEX

 H_{2-3} : There is no impact of firm's growth on the relationship between capital structure components and the performance of the listed corporations on the PEX.

 H_{2-4} : There is no impact of firm's age on the relationship between capital structure components and the performance of the listed corporations on the PEX.

Chapter Two

Theoretical Framework and Literatures Review

This chapter comes to present the theoretical argue and review of the previous literatures as presented below.

2.1 The Theoretical Framework

This section displays the theoretical concepts that related to this thesis as explained below.

2.1.1 Concept of Capital Structure

The theory of Modigliani and Miller,1958 capital structure is very important because it investigated in both academic and business levels, since the financial decisions of a corporation are important in both operational and capital activities. A capital structure is a combination of debt, equity and the way the company finances itself, in other meaning, it is a mixture of funds, in the shape of debt and equity.

(Gerestenbage, 2005), defines the capital structure as a composition or make up its capitalization and include all long-term capital resources.

According to the definition of (Jensen, 1976), the combination of long-term, permanent financing of the corporation represented by debt and equity.

Also (Chen, 2005), defines it as a structure of a corporation's financing consists of equity and debt.

The firms always face the most important financial decision, which is to choose between debt and equity (Glen & Pinto, 1994). This choice can efficiently be made when directors are aware of how capital structure effects corporation performance. This awareness enables directors to recognize how profitable corporations take their financing decisions in particular settings to stay competitive. The firm finance literature shows that the decision changes from one economy to another, according to the characteristics of country.

The firm capital structure contains several sources, which offered in the parts of equity and responsibility of the balance sheet. The corporation also has three major sources of funding that called capital elements, which includes using reserved earnings (interior), producing new shares (exterior) or scrounging money by debt tools. These financing sources constitute of considered the capital structure of the company and show its property structure (Huang, 2003).

Capital structure refers to the mix of different forms of financing adopted by the firm in financing its operations, theorists have over the years considered financial structure as a key determinant of corporate financial stability. While some models provide for positive interrelation, others suggest a negative relationship yet; others don't find relationship between the two variables, there is no universally accepted capital structure theory (Myers, 2001).

2.1.2 Debt Financing

According to (Zietlow, Hankin, &Seidner, 2007) the debt, is considered as one of the most significant elements of firm's capital structure, it also enables a firm to

finance by borrowing, this sources required for capital expenditure and financing their project, its arrangement between a lender and borrower.

The main financing debt characteristic is the borrowed money amount, which must pay interest to the debt lender in a given period with a reimbursement plan that should be put in the agreement between the financier and the debtor. If the debtor does not achieve his commitments that set out in the agreement, this is a negatively affect their credit, lower cost and leading to the financial failure (Shah and Hijazi, 2004).

Debts are divided into short – term and long-term debts. Short –term debts are used to finance the daily operations such as the short- term lends and the inventory financing, this type of financings' reimbursement plans need less than one year. But the long-term debts are attained when corporations purchase assets such as equipment, the payment plan or schedule for this fund needs more than one year (Zietlow, Hankin, and Seidner2007).

(Salawu, 2007) conducted an experimental study of the Nigerian companies' capital structure during 1990 and 2004. The study used a panel data analysis. The results showed that leverage is negatively associated with profitability. The results also assured tangibility was positively connected to total debts and long-term debt, but negatively associated with short-term debt. In addition, the study stated that all Nigeria's banks borrowing is affected by collateral, whether it is short term or long term. Moreover, it was also found that the growth opportunity is positively associated with total debts and short-term debts as well.

2.1.3 Equity Financing

(Sibilkov, 2009) found that equity supports the corporation to gain liquidity without suffering from debt. In other words, the fund gained by equity is not necessary to be reimbursed at a particular time. The investors who buy shares relies on the future profits to recover their investments. The stockholders can contribute in the profits of the firm in a way of payments or future capital earnings. However, if the company is exposed to a loss, the shareholders bear limited liability, which means that their loss is the amount they invested only.

According to (Mayers, 1984), interior equity refers to the reserved gains, which is considered a part of the company's funds that may be distributed. The firm has to make a decision about the profit position it will pay to investors as a share, when it specifies the distributable earning in the income statement. The residual earnings are the reserved gains and they will be transferred to the company's' distributable earnings. Reserved gains are the profits that are invested in the company again. Exterior balance sheet is the outer capital, which are gained by producing new shares.

(Narayanan, 2008) stated that the value of the company's shares may decrease in the case the company raises a large amount of capital, giving the market an idea that the company does not have sufficient reserves or liquidity. The value of the company's shares may also decrease when investments are bankrolled by outer equity. Therefore, it is better to work to provide solid reserves, it is better to build up reserves, so that a higher ratio of capital is obtained from inner source.

2.1.4 Capital Structure Theory

This section will provide a review of capital structure theories that offers an understanding of how financing decisions affects the financial position of firm, these theories include Modigliani Miller theory, trade of theory, pecking order theory and agency cost theory.

2.1.4.1 Modigliani Miller Theory

(Modigliani & Miller, 1958) hypothesized that in the conditions the capital market is efficient; where there are no taxes and transaction costs, companies operate in a similar risk environment, companies have 100% dividend payout, stockholders can scrounge and lend the same rates of benefit to enterprises. Capital structure does not affect the financial distress of enterprises. They went on to combine the business risk (cost of capital) with the ability to profit (return on assets) but not how to finance companies, which identify financial distress. This means that companies operating within the same business environment typically have a similar risk structure and therefore have similar potential earnings.

The theorists dispute that such firms command equal market values nevertheless, how they financed. The theorists further pretend that should such firms exhibit various market values, investors (who can scrounge and lend at the same rates of benefit as corporate) will diverse engage in comparison activities by selling their securities in the overvalued firm and buying securities in undervalued firm (investment switching). This will effectively increase demand for the securities in the undervalued firm and reduce demand of securities in the overvalued firm, hence restoring the market valuation equilibrium (Modigliani and Miller, 1958). This theory however faced many criticisms that mainly hinge on its efficient market assumptions. As can be seen, the authors have assumed that each firm belongs to a specific "risk class," with same or similar income within states across the world.

However (Stiglitz, 1969), proved that this assumption is not realistic because firms do not operate in identical business environment. In his review, the author also criticized the hypothesis that individuals can borrow at the same price of the corporations. He argued that the practice has shown that there are limitations toward the market rates for individuals when borrowing, compared to firm borrowing. In this respect, he held that the assumption of homemade leverage is not sustainable regarding the methodology. (Frank and Goyal, 2003) stated that the theory based on an abstract mathematical model, which did not include the collection and analysis of data to arrive at this conclusion. This is in contrast with the recent approaches in the capital structure literatures that mainly use quantitative approach or less commonly qualitative research methods to empirically test the modern theories.

As for the MM theory, theories of capital structure work in ideal market and that the firm's finance is not associated with its value in ideal market, the real world does not work according the supposition mentioned by the MM theory. This theory is relevant to the study because it provides for a non-biased perspective on the relation between capital structure and financial hardship variables employed by the study. By providing that financing decisions are irrelevant to the firm, the theory offers a neutral platform to undertake an incisive empirical analysis of this relationship within the targeted population.

2.1.4.2 Tradeoff Theory

The theory that pioneered from the work of (Modigliani and Miller, 1963) followed the heavy criticism leveled against their irrelevance theory because of their perfect market assumptions. By accepting that taxes exist in the real world arbitrage activities are not always sustainable, the authors showed that the capital structure indeed affected the corporate market value. By incorporating the effect of corporate taxes and relaxing the assumption on the existence of arbitrage, they argued that interest on debt, being tax deductible provides extra cash flows on the levered firm in the form of interest tax saving, that rises the market value of the firm.

The model of tradeoff theory created from the argument about the M & M theory, when company taxes were put in the original unrelated suggestion of M & M, an interest of debt is noticed that serves to protect earning from taxes. This theory indicates that the ideal capital structure is the tradeoff between the interests of debts.

The theory contended in solution of paying the debt, which constant cost of debt and static marginal tax rate, that the leveraged firms have more value than unlevered firms do. This attributed to the current value of tax's benefits shield associated with the operation of financing the dept.

(Wippern, 1996) investigates the relation between financial leverage and performance of the company. The study used debt to equity rate as a financial leverage pointer and earning to the market value of common stock as a performance pointer. The study findings showed a positive influence on the corporation's performance. The authors (Roden and Lewellen, 1995) examined the effect of capital on the performance for 48 united states corporations with a leverage buyout within the period between (1981- 1990) and use multinational model. The result of their research showed that there is a positive relationship between corporate performance and the leverage.

According to (Arbabiyan and Safari, 2009) the effect of leverage ratio of one hundred Iranians publicly listed firm on their performance over the period between (2001- 2007), they stated that short term and total debts are positively associated with the profitability measure.

2.1.4.3 Pecking Order Theory

(Mayer, 1984) proposed this theory. According to Mayer, firm prefers to finance new investment, internally by retained earnings, and then debt (Mayer, 1984) states that it is difficult to determine the optimal capital structure where equity appears at the top and bottom of the pecking order.

According to (Mayer, 1984) internal funds incur no floatation cost, firms use in the operations of investment finance since they have no conditions attached to its debt, the pecking order theory is about what the firm's management will prefer in financial sources terms to use, firms chose internal financial by using profit from previous years, second firms will chose to lend money from credit institution, third firms will issue additional share, the pecking order theory revealed that companies management favors internal financing instead of external financing.

The empirical literatures on corporate capital structure started with the (Modigliani and Miller, 1958) irrelevance of capital structure proposition. In the

subsequent years, researchers have developed a number of theories that have discussed the relevance of capital structure choice for determination of firm financial performance and position.

This theory states that corporations prefer internal financing and just in a position when internal cash flow is inadequate for activity financing, they reach for the foreign capital, to help as a last resort, companies launch own external financing for instance conducting share issuance.

2.1.4.4 Agency theory

Agency theory is interested in separating interests when the firm's ownership and management are separated. The main argument in the agency theory is the corporate manager work in their own interest, the agency theory proposes the using of debt financing as a way of monitoring managers of the firm to focus on all overall objective of the organization apart from their own interests.

Also, (Myers, 2001) says if the firm is in a position where creditors can impose bankruptcy or reorganization, managers can play for time by withholding problems. Actions to growth the effective maturity and the debt risk. Again, debt owners suffer, while stockholders gain the agency theory viewed as overlapping with both the trade-off theory and the pecking order theory.

(Onel, 2012) states that the debts proportion also encourages managers to act more in the concerns of stockholders. So, the corporation's value rises. Furthermore, the ideal capital structure reduces the company's high value. Agency costs are intensified for managers monitoring and their risk appetite sometimes through compensation structures, where managers are rewarded only for success, and are punished for failure (Gangeni, 2006).

2.1.5 Contextual Factors Influence on Capital Structure - Performance Relationship

Presented below are main factors may influence on capital structure – performance specification, the factors are firms size, industry type, growth and firms age.

2.1.5.1 Firm Size

Firm size described as the quantity and multiplicity of production capacity and ability the corporation owns or the quantity and multiplicity of services the corporation can provide simultaneously to the clients (Mule and Mukras, 2015).

Firm size refers to how big or small. The corporation size is constituted a main factor in determining financial solidity of the corporation (Surajit and Saxena, 2009).

Different measurement has been adapting activation firm size, such as total assets, total sales, total employee have been extensively employed, total revenues with success to describe the size of the firm in empirical research (Kodongo, and Mwangi, 2014).

The (Ezeoha, 2008), states that the size of the corporation plays a crucial part in deciding the performance of it enjoys inside and outside its operating environment. He stated that usually, the bigger corporation is the bigger effect it has with its shareholders. Again, the increasing effects of conglomerates and multinationals in the current global economy and in local economies, where they indicate what role size play within the company's environment.

(Rajan and Zingales, 1995) study on (43)states showed that, $\frac{2}{3}$ of the growth in industries during the 1980s, came from the growth in the size of existing corporate establishments, while only $\frac{1}{3}$ trickled in from the creation of new ones; it is evident that the importance of firm size in determining corporate financial distress cannot be underestimated.

The paper of (Amato, 2007), examines the relation between the size of the firm and the profitability of the companies operating in the United Kingdom financial services sector. The paper tested both linear and cubic forms of the relationship; they stated that there is a negative relationship existed between company size and profitability under both linear and cubic models. They argued that as companies expanded, they had the propensity to increase the debt component in the capital structure as opposed to small-sized companies. This inevitable results leads to the reduction in efficiency and profitability.

(Serrasqueiro and Nunes, 2008) examines the influence of company size on profitability among the SME companies operating in the manufacturing sector in Portugal using the data for the years 2002 to 2007. The study findings revealed that negative and statistically significant relationships existed between the natural logarithms of total assets, total sales and number of employees of the companies (size) and their profitability measures. They attributed, the negative relationship to a system of capital structuring where large-sized firms used more debts capital to finance their assets because of collateralization, which resulted to decline in levels of performance. (Lee, 2009), investigates the role played by the size of the firm in determining the profitability of the United States companies owned by the public sector, which used the fixed effect dynamic panel model and a sample of more than 7000 entities, the results of this paper show that company size (total asset) had a significant nonlinear relationship with performance measure. The paper ascribed the negative coefficient between the variables to the preference of larger companies to finance their assets by a large amount of debt capital to increase the borrowing capacity.

(Ozgulbas, 2006) examines the impact of firm's size on performance for the listed firms in Istanbul Stock Exchange during (2000 to 2005), the paper showed that large size firms had a higher performance in contrast with small size. The researcher attributed this contrast in the firm's performance to the fact that banks were more willing to make their money available to larger companies in part, because they are more expansive, in part because larger companies usually require larger amounts of debt capital than smaller companies. As a result, the large firm will able to decrease the transaction cost linked to debt issuance and could take a lower interest rate.

(Mule, 2015) investigates the listed firm in Kenya during 2010 to 2014 period, that showed a positive and significant relationship between firm size and profitability (Return on Equity). Therefore, the study shows that greater profitability for large firm compared to small firm could be attributed to variance in debt structure of two categories of the companies and the ability of large companies to use the leverage linked to financial leverage.

2.1.5.2 Industry Type

There are many particular factors distinguish an industry, which influence the corporations 'debt structure of that industry. This issue may appear from the various environments of business, the competition level in product markets, the necessary capital for these industries, and the industries' skill structure.

(Titman, 1984) study suggests a pattern which suggests that corporations with specific products experience have greater costs in insolvency situation, and therefore, this will result less debt in the capital structure of the industry. The company's industry sections impact on leverage, as the distinction can differ from one industry to another.

The industry is associated with many diverse elements in the theory of capital structure, like the cost of insolvency, the value of liquidity, asymmetric information, the value of collateral and the direction of the macroeconomic industry (Titman, 1984).

The paper of (Aftab, 2012), states that the industry type influence on liquidity. Each industry has its own levels of liquidity that deal with the operational needs, in addition to manage the company's amount of return.

The paper of (Al-Qaisi, 2013), showed that firms in Palestine have low leverage ratio, and the result showed that there is no long- term debt in the literal meaning.

(Omet, 2003) examines the capital structure choice nature and determining non-financial registered firms of Jordan, Kuwait, Oman and Saudi Arabia in 1996 to 2001 period. The findings showed that Jordanian, Kuwaiti, Omani and Saudi Arabian firms have somewhat low leverage rates. Furthermore, the capital structures of these firms have very low values of long- term debts.

The paper of (Murgaritis, 2009), discusses the choices of capital structure of the companies that listed in developing markets from various areas. Unlike first studies, the concentration is on the small companies since their participation to GDP is greater than larger companies, also small companies form the majority of companies in developing countries. The study discusses if the capital structure's identifiers reveal variances between small, medium and large companies, and it investigate if the identifiers of capital structure are equal to registered and private companies.

(Booth, 2001) examines the company's fiscal structures in the following developing countries, (India, Pakistan, Thailand, Malaysia, Turkey, Zimbabwe, Mexico, Brazil, Jordan, and South Korea). The study clarifies whether fiscal leverage choices and the elements that influence them vary among countries and whether capital-structure patterns present better predictions if the firm's nationality is recognized.

2.1.5.3 The Growth

According to (King and Santor, 2008), work development is a sign, that is used to evaluate the performance of the manager and expect future sales of company. In addition, it is a beneficial measure for decision-making of the investors. Business evolution is calculated by separating the present alterations in company's sales to the former year alterations. Business evolution is expected to have a positive relation with company's performance. There is much dispute about the relationship between the chance of growth and leverage level. Pecking –order theory supposes that companies growing rely on internal funds more than external funds.

(Michaelas, 1999) shows that companies with fast growth chances are searching for more debt because of the shortage of their internal earnings. So, it is expected that there is a positive relationship between growth opportunity and debts.

The paper of (Marsh, 1982), shows that the companies with high growth will grasp the relatively high debt proportion. For ownership of small business more focused, it is estimated that high growth companies need further external financing, and must show a greater impact.

The paper of (Aryeetey, 1994), indicates that the growth of media firms are more probable to deal with external finance, but it isn't clearly known if the debt funding brings growth, or both. While firms through different growth stages, are also expected to change the funds source.

The paper of (Myers,2001) shows the existence of chances for growth of the firm and its capital structure with a relatively low debt proportion.

2.1.5.4 Age of the Firm

(Hall, 2004) paper, agrees with features of the capital structure as showed above, and revealed that firm's age is positively linked to long-term debts and shortterm debts are negatively linked.

The paper of (Aryeetey, 1994), shows that both long-term and short-term debts are negatively related to age. (Green, 2002), indicates the retrieval probability
in the debt capital age for the initial equation. There is no impact on the form of additional capital.

The paper of (Krishnan, 1997), examines the relationship between the level of debts and the companies' performance through involving three of debts level's measures. This study indicated that the relation between the debts level and firm's performance was inverse, and revealed that both earnings and short-term debts were negatively correlated, while earnings were correlated positively with long-term debt. In addition, the firms size effect tolerates positively to the firms' performance.

The paper of (Gleason, 2000), shows that the size of a company influences the performance with larger retailers who achieve more returns on assets as comparing with small size retailers. (Chen, 2005), founded the same results.

(Abor, 2005), examines the connection between return on equity, the size of the firm, sales increasing and capital structure by using a sample consisted of 22 companies registered in China, this study showed that short term debts have a positive relation to return on equity, while long term debt with negative relationship.

2.1.6 Objective of capital structure

Decisions of capital structure seeks to achieve the two following significant goals (Gerestenbage, 2005).

- 1. Exploit the value of the firms
- 2. Exploit the total cost of capital.

2.1.7 Optimum Capital Structure

Is defined as the capital structure in which the average capital cost is considered the minimum, so the value of company is the most (Gerestenbage, 2005)

The best capital structure is defined as the capital structure or mixture of equity and debts that have an objective of maximizing the value of the firms (Gerestenbage, 2005).

2.1.8 Forms of Capital Structure

Capital structure components is vary from firm to firm and the finance availability, usually the next shapes of capital structure are prevalent in practices (Gerestenbage, 2005).

- 1. Equity shares.
- 2. Equity and preference shares.
- 3. Equity and Debentures.
- 4. Equity share, preference shares and debentures.

2.1.9 Factor Determining the Capital Structure

The bellow elements are considering during determining the capital structure of the company.

2.1.9.1 Leverage

Financial leverage is considered as the important and basic element, which influence on the capital structure, it uses the constant cost financing like Equity, debts and preference shares capital, it is associated with the total of capital.

2.1.9.2 Cost of Capital

The cost of capital is considered as the main driver for determining the capital structure of a firm, usually the long term financing like debt and equity, contains constant cost while mobilizing, when the capital's cost increases, the worth of the firm declines, there must be cautious step to decrease the capital's cost such as the following:- (Alawwad, 2013)

- **a.** The business nature: Use the constant profits/ dividend bearing financing depends on the business nature. If the business consists of a long time of operation, it will stratify for equity than debt, as a result will decrease the capital's cost.
- **b.** The firm's size: the size influences on the capital structure of a company belongs to the wide range, large size firms will apply internal financing that consists of low financing cost, on the other hand, the small size firms will apply the external financing that consists of high capital's cost.
- **c. Legal Requirement:** firms should produce various sources of securities in order to compile fund from various type of investors.
- **d. Requirement of Investors:** in order to collect the fund from different types of investors, it will be appropriate for the firms to issue different types of funds and securities.

2.19 The Previous Literatures

This section presents the previous literature that related to the topic of this thesis.

Many studies shows that the cost of capital is the main determinant of capital structure in non-financial companies like the study of (Jensen, 1976), which found the potential conflict between owners and managers that results cost rising. Some enormous literatures on cost theoretic clarification of capital structure has developed like (Harris, 1991), and (Myers, 2001). Some studies inserted debt in capital structure in terms of the tax leverage of debt (Miller, 1977). (Booth, 2001) investigated the impact of debt on tax in some developing countries and revealed that debt rate is negatively associated with the tax rate, whereas (Antoniou, 2002), showed mixed findings when they utilized data from European countries in their study, some others utilized debt as signal for quality companies' management, (Leland and Pyle,1976) and (Ross, 1977), while others utilized debt as an anti-appropriation device (Harris and Raviv, 1990).

(Abu rub, 2012), examines the impact of capital structure on firm's performance in Palestine Exchange for the period between 2006 to 2010. The sample consisted of 28 firms. The study used five indicators of performance as dependent variable: (Return on Equity (ROE), return on assets (ROA), earnings per share (EPS), market value to book value of equity ratio (MVBR) and Tobin Q ratio). Furthermore, the study used the following independent variables short-term debt to total assets (SDTA), long-term debt to total assets (LDTA), total debt to total assets ratio (TDTA), and total debt to total equity ratio (TDTQ). Results revealed that the capital structure composition has a positive effect on the firms' performance.

(Zeitun & Tian, 2007) examines the effect of capital structure on the performance of (167) Jordanian firms between (1989- 2003). The findings indicated that the capital structure has significant negative effect on accounting measures of the performance. Besides, the results showed that short-term debt to total assets ratio (SDTA) has significant negative impact on the market measurement to assess the performance of Jordanian firms.

The paper of (Sunder & Myers, 1999), investigated and evaluated the impact of four elements: assets palpability, growth, firm's tax and profitability on the capital structure (debt rate). The study was conducted on 157 American firms during 1979 to 1981. The study results revealed that there was a significant positive relation between property resources, possessions tangibility with debt percentage proportion amount and a considerable negative relation between debt proportions percentages amounts with company's profitability. Furthermore, there was no significant relation between two elements, growth chances and the tax situation with the rate of the debt.

Furthermore, (Rajan & Zingales, 1995) paper studied the identified elements of the capital structure of large and widespread firms in (7) large countries, which are: United States, Japan, Germany, France, Italy, Britain and Canada, in the period (1987 to 1991). The study was conducted on (4557) firms in the (7) mentioned countries. The results of the study showed that fiscal leverage has a negative relation with profitability and market value to book value and positive relation with the value of palpable constant asset and company's size.

(Chen, 2005) examines the relation between the variables (firm's size, firm's age, work risk, rate of sales growth, tax, and profitability) and (impalpable assets with debt ratio (capital structure). The sample included (972) stock firms in China. The

results revealed that the relation between these variables and debt ratio is based on calculation of the dependent variable (market value or book value).

(Sogorb, 2005) study was conducted in Spain between 1994 and 1998. The paper investigated the impact of small and medium firms' characteristics on their capital structure. The study sample consisted of 6482 nonfinancial firms in eight industries. The findings revealed that tax reserves and profitability of these firms have a negative relationship with the capital structure, while size, growth opportunities and asset structure in these firms have a positive relation with capital structure.

(Modigliani & Miller, 1958) have conducted a study which showed that under particular key suppositions, company's value is not influenced by its capital structure. The capital market is supposed to be typical in the Modigliani and Miller model, where insiders and outsiders have a permission to enter to information for free, no deal's cost, insolvency cost, and no taxes exist equity, and debt option become unrelated, internal and external funds can be replaced completely.

(MM, 1958) study indicated that the value of a company shouldn't relay on its capital structure. The theory stated that "a company should have the same market value and the same Weighted Average Cost of Capital (WACC) at all capital structure degrees because the value of a company should relay on the return and risk of its process and not on the way finances those processes".

The paper of (Miller, 1977), put the next version of the irrelevance theory of capital structure. The study reported that corporation capital structure decisions with both corporate and personal tax conditions are not relevant, if these main suppositions are relaxed capital structure may become connected to the company's value, so

research attempts have been participated in soothing the perfect suppositions and expressing the sequels. This theory was assessed based on that ideal market doesn't exist in real life situation. Attempts to reduce these suppositions, especially the no insolvency cost, and no tax directed to the constant trade off theory.

(Eisenhardt, 1989), showed that the theory is interested in solving two problems that can happen in the agency relation. The agency problem that arises when (a) the needs or objectives of the principal and agent conflict and (b) it is difficult or expensive for the principal to confirm what the agent is really doing.

The capital structure consists of debt and equity, debt ratios and equity depend on the corporation.

(Cespedes, 2010) examines the relationship between capital structure and ownership structure was examined in seven US states from (1996- 2005). (6766) companies were chosen as a samples. The paper revealed that there is a positive relationship between leverage and growth. In addition, the findings show a positive relationship between leverage and ownership. And negative relationship between profitability and leverage.

(San and Hong, 2011), examines the relationship between capital structure and the performance of Malaysian companies between (2005- 2008). In this paper, (49) firms were chosen as a samples. The findings concluded that there is a significant relationship between capital structure and company performance.

(Daraghma, 2014), examines the company's size impact, and company's debts level on the debt and profitability relationship for the listed industrial corporations on the PEX for the period (2005 to 2012). Besides, 11 Industrial listed corporations were selected. The findings are: (1). There is a positive impact of debts on the performance, (2) There is a Positive impact of the debt on profitably for both low size and high size firms.

The paper of (Zeintun and Tian, 2007), examines the influence of capital structure on the corporation performance for (167) Jordanian firms between (1989-2003). The findings of this paper revealed that the capital structure has a negative impact on accounting performance. Also, the short term debts to total assets has negative influence on the corporation performance.

(Moscu, 2014) examines the capital structure influence on corporation performance of Romanian companies of (53) that listed on Bucharest Stock Exchange during (2010- 2012) by using ROA, ROE, RCA and MBR to measure the performance. The paper shows that there is a significant impact of capital structure on firm performance.

The paper of (Abdullah, 2011), tests the relationship between capital structure and corporation performance for (532) East Asian firms, which are, located in (7) most influenced countries when a crisis took place between (1996- 1997). The period of analysis is (2000- 2001). That believed as a start of recovery period, the research result asserts the incentive signaling approach, which debt can be used to signal the fact that company has prospect and equity issues may be understood as a negative signal.

(Leon, 2013) examines the correlation between capital structure and the financial performance of companies listed in Sri Lanka from (2008- 2012). The performance is computed using accounting profitability, Return on Equity (ROE) and

Return on Assets (ROA); 30 listed firms were selected as a sample, the findings reveal that there is a negative relationship between leverage and ROE, Also, there is a significant relationship between leverage and ROA.

(Chen,2005) examines the relationship between firm's size and firm's age, work risk, rate of sale growth, tax, profitability and impalpable properties with debt ratio (capital structure) of (972) corporations in China. It revealed that there is a relationship between these variables and debt ratio based on calculation of dependent variable (market value or book value).

(Sogorb, 2005) examines the influence of both small and medium firms on the capital structure in Spain between (1994- 1998). This paper uses, data of (6482) nonfinancial firms in (8) industries. The results showed that tax reserves and profitability of these firms have negative relationship with capital structure. Also, the growth opportunities of the company have a positive impact on the capital structure.

(Raluca, 2014) tests the relationship between the capital structure and the firm profitability, (53) firms that listed on the Bucharest Stock Exchange between (2010-2012). The paper notes that the performance of the company (ROA, ROE and MBR) has been significantly affected by the capital structure. In this study, the company's performance is expressed as an economic return that has been positively affected by the capital structure degree and by the ROE, net sales margin rate, Earnings Per Share – EPS, Market to Book Ratio- MBR have a negatively affect by capital structure.

(Ebrati, 2013) investigates the impact of capital structure on the performance of the listed corporations on Tehran Stock Exchange. This paper used a multiple regression analysis to estimate the relationship between leverage and company performance, (Return on Equity: ROE), (Return on Assets: ROA), (Market Value of Equity to Book Value of Equity: MBVR), study sample consists from (85) firms that listed on Tehran Stock Exchange. The paper concludes that there is influence of leverage on firm performance.

(Badu, 2016) investigates the relationship between capital structure and performance for the corporations that listed on Ghana Exchange for the period between 2000 and 2010.Data was obtained from Ghana Stock Exchange and the annual reports of the mentioned firms. The paper uses regression analysis to examine the data, the results revealed that there is a high geared and negatively related to the performance in the company. Also, the paper indicated that there is a high level of gearing among the mentioned companies.

(Gangeni, 2006) investigates the impact of capital structure on company value in the South Central Region of Vietnam. Also, examined the impact of optimal capital structure on value; it employed regression analysis. The study sample consists of (90) unlisted in Vietnam for the period of (2005–2011). The paper uses book value of equity; BVE plus long-term debt and return on equity as a replacement for firm value and book value of total debt to total assets. The result of this research showed that triple threshold effect exists between debt ratio and firm value when BVE is selected as proxy for firm value and double threshold effect exists between debt ratio and firm value, the author concluded that there is nonlinear correlation between capital structure and firm value.

The paper of (Al-Qaisi and Fawzi,2013), examines the determination of capital structure of the firms that listed on Palestine Exchange, during (2003 and

2007). The results showed that the Palestinian listed firms have low leverage ratio. Also, there is no long- term debt literally.

(Hayajneh, 2007)examines the impact of capital structure on the performance of the Jordanian corporations that listed on Amman Bourse. This paper used the multiple liner regression model to analyze the data of (76) corporations (53 industrial and 23 service) between (2001-2006). The result of the study indicates that there are no significant differences that impact on the performance for high financial leverage and low financial leverage firms, and that there is no influence of financial leverage on the performance of the company.

Also (Nwankwo, 2014) paper, examines the effect of capital structure of Nigeria firms. The paper uses regression analyses. The finding shows that there is a long run relationship between growth and development in Nigeria economy.

The paper of (Muturi, 2015) examines the influence of capital structure on the performance of corporations that listed on Nairobi Securities Exchange during (2008-2013). The paper adopts descriptive, non-experimental methodology. The data is obtained from the annual reports and the financial statements. The study used the multiple liner regression to examine the hypotheses. This study concludes that equity and long debts have a positive and significant influence on the financial performance. Also the short-term debt has a negative influence on the financial performance.

(Daraghma and Alsinawi, 2010) examines the impact of (board of director characteristics, management ownership and capital structure)on the performance of the listed corporations in the PEX. This paper offers empirical investigation of three variables that have influence on the company's financial performance for firms that listed on the PEX and these variables are (board of director characteristics, management ownership and capital structure) by selecting a sample of (28)firms that listed on the PEX. The result of this paper indicates that board of directors 'size has negative impact on the financial performance. And, the debt financing hasn't impact on the profitability.

The paper of (Athula, 2011) examines the impact of capital structure on the performance of the listed corporations on Sri Lanka Stock Exchange. The paper relies on pooled and panel data regression analysis. The sample size is (155) firms. The results show that most of the companies in Sri Lanka finances by using short term debt rather than long term debt. Also, there is an evidence shows that the performance of the firm is negatively impacted by the debts.

(Muritala, 2011) examines the impact of capital structure on the performance of Nigerian companies. The paper exploits the annual data for five years. The study uses the unit root test and regression analysis to examine the hypotheses. The results show a negative relationship between capital structure and the performance. And the results from Panel Least Square (PLS) confirm that asset turnover, firms' size, firm's age and firm's asset palpability are positively related to company's performance. Also, the study shows a negative correlation between assets and tangibility and ROA as a measure of performance.

(Alawwad, 2013), examines the impact of capital structure on the performance of non-financial companies listed on Saudi Arabia between(2008- 2012). The study sample consisted of (67) companies from thirteen different sectors. This research analyzes the relation between the capital structure including (short-term debts, longterm debts and total debts) and performance including (earning per share, net profit margin, return on assets, and return on equity). The research results find out that the long-term and total debts have a significant impact on return on equity. The results also showed that return on assets has a significant relationship with all of the debt levels. Earnings per share and net profit margin positively related to short term debt while they have opposite relations with the long-term and total debts.

The paper of (Zeitun, R., and Tian, G., 2007), examines the effect of capital structure on performance for (167) corporations that registered on Amman Bourse. The data cover the period from 1989 to 2003. The results of this paper show a negative significant impact of capital structure on performance and a positive impact of short-term debt on performance.

Chapter Three

Research Methodology

3.1Chapter Overview

This chapter introduces the data and methodology of this thesis.

3.2 Study Approach

This study depends on the empirical approach (positive approach) to examine the hypotheses by using the historical accounting data that published by the nonfinancial corporation that listed on Palestine Exchange. The positive accounting approach provides empirical evidence from the practices, and this approach assists to compare the outcomes with the theory of accounting. The theory of accounting and finance failed to provide a clear evidence regarding the sign of the relationship between both(debt and equity) and performance. This thesis will provide evidence from the non- financial corporation listed on the PEX regarding the effect of capital structure on the performance for the listed nonfinancial corporations in the PEX.

3.3Population and Sample Size

The population of this thesis includes the non-financial corporation that listed on the PEX for A 8-years period form 2009 – 2016. This sample is selected according to the following conditions: a- Company should be listed in the PEX, b- Company must be non-financial company (industry, investment, and service sector) c- Company stock is traded. D-Company should be listed before January 1, 2008. Therefore, 30 corporations met the pervious conditions, these corporations selected to meet the purpose of this thesis by using the econometric models. The historical accounting data was selected from the website of the PEX, the guide of corporations that publish by the PEX (<u>www.p-s-e.com</u>), and the financial reports of the non-financial corporation that listed on the PEX.

The sample consisted of 30 non-financial corporations that listed on the PEX. These corporations varied in terms of age, industry type, size, and growth as listed in table (3.1)

Table (3.1)

Variable	Portfolio	EPS	Debt	Equity	
Company age	High age firms	92	104	104	
	Low age firms	88	120	120	
Industry type	Service sector	63	88	88	
	Investment sector	50	64	64	
	Industry sector	76	88	88	
	Total	189	240	240	
Company size	High size	94	114	114	
	Low size	82	109	109	
Firm growth	High growth	92	111	111	
	Low growth	83	113	113	

The distribution of study sample according to intermediate variables

Table (3.1) shows the distribution of study sample according to intermediate variables (age, industry type, size, and growth,). The age of the firm was distributed into two portfolios (high and low) by using the median of the age the distrusted of high age is 92 firm and the low age is 88 firm. The industry type distrusted into three portfolios (service sector, investment sector and industry sector). The size of the

firms, also divided into two portfolios (high and low), by taking the Log of sales to divide the sample. In addition, the growth has two portfolios (High and Low). The growth is computed by dividing the current years of sales to the last years of sales.

3.4 Econometric Models

Presented below are the econometric models that used for testing the hypotheses of this thesis.

3.4.1 An Econometric Model for Testing the First Null Hypotheses

H₁: There is no effect of capital structure formulation on the performance of the nonfinancial firms that listed on the PEX.

This null hypothesis consists of two sub null hypotheses. The econometric models are presented below for each sub-hypothesis:

3.4.1.1 An Econometric Model for Testing the First Sub Null Hypothesis

 H_{1-1} : There is no impact of debts on the performance of the non-financial corporations that listed on the PEX.

Presented below is the simple liner equation for testing the first null hypothesis:

 $EPS_{it} = \alpha_0 + \alpha_1 Debt_{it}$

Where: -

EPSit: Earing per share of firm I for year t.

 α_0 = The constant.

 $\alpha_{1=}$ The debt ratio response coefficient. The coefficient explains the role of debt in explaining the performance of firm I for year t.

3.4.1.2 An Econometric Model for Testing the Second Sub Null Hypothesis

 H_{1-2} : There is no impact of equity on the performance of the non-financial corporations that listed on the PEX.

Presented below is the simple liner equation for testing the first null hypothesis:

 $EPS_{it} = \alpha_0 + \alpha_1 Equity_{it}$

Where: -

EPS_{it}: Earing per share of firm I for year t.

 α_0 = The constant.

 $\alpha_{1=}$ The equity ratio response coefficient. The coefficient explains the role of equity in explaining the performance of firm I for year t.

3.4.2 An Econometric Model for Testing the Second Hypothesis

H₂: There is no impact of (firm's size, industry type, firm's growth and firm's age) on the relationship between capital structure components and the performance of the listed corporations on the PEX.

This null hypothesis consists of four sub null hypotheses. The econometric models are presented below for each sub-hypothesis:

3.4.2.1 An Econometric model for Testing the First Sub Null Hypothesis

H₂₋₁: There is no impact of firm's size on the relationship between capital structure components and the performance of the listed corporations on the PEX.

For examining this hypothesis, the data is divided into two portfolios(high size and low size firm). Presented below are the econometric models for testing this sub-hypothesis: -

Table (3.2)

Econometric model for testing the firm's size on the relationship between the

firm's size (debt) on the performance

Firm Size Portfolios					
High Size	Low Size				
Econome	tric Models				
$EPS_{it} = \alpha_0 + \alpha_1 Debh_{it}$	$EPS_{it} = \alpha_0 + \alpha_1 Debl_{it}$				
Where:-					
$EPS_{it} = Earing per share of firm I for year t.$					
α_0 = The constant.					
α_1 = The debt ratio for high or low size response coefficient. The coefficient explain					
the role of debt in explaining the performance of firm I for year t.					

Table (3.3)

Econometric Model for Testing the firm's Size on the relationship between the

firm's size (Equity) on the performance

Firm Size Portfolios					
High Size	Low Size				
Econometric Models					
$EPS_{it} = \alpha_0 + \alpha_1 Equityh_{it} \qquad EPS_{it} = \alpha_0 + \alpha_1 Equityl_{it}$					
Where:-					
EPS it = Earing per share of firm 1 for years t					
$\alpha_0 =$ The constant					
α_1 =The equity ratio for high or low size firm response coefficient. The coefficient					
explain the role of equity in explaining the performance of firm 1 for year t.					

3.4.2.2 An Econometric Model for Testing the Second Sub Null Hypothesis

 \mathbf{H}_{2-2} There is no impact of industry type on the relationship between capital structure

components and the performance of the listed corporations on the PEX.

For examining this hypothesis, the data is divided into three portfolios (Industry

and investment and service sectors). Presented below are the econometric models for testing this sub-hypothesis: -

Table (3.4)

Econometric Model for Testing the industry type on the relationship between

the industry type (Debt) on the performance

Firm type portfolios						
Service sector Investment Sector		Industry Sector				
Econometric Models						
$EPS_{it} = \alpha_0 + \alpha_1 Debs_{it}$	$EPS_{it} = \alpha_0 + \alpha_1 Debi_{it}$	$EPS_{it} = \alpha_0 + \alpha_1 Debin_{it}$				
Where:-						
EPS it = Earing per share of firm 1 for years t						
$\alpha_0 =$ The constant						
α_1 =The debt ratio for (service, investment, or Industrial sectors) response						
coefficient. The coefficient explain the role of debt in explaining the performance						
of firm I for year T.						

Table (3.5)

Econometric Model for Testing the industry type on the relationship between

the industry type (Equity) on the performance

Firm type portfolios						
Service sector	Industry Sector					
Econometric Models						
$EPS_{it} = \alpha_0 + \alpha_1 Equitys_{it}$	$EPS_{it} = \alpha_0 + \alpha_1 Equityi_{it}$	$EPS_{it} = \alpha_0 + \alpha_1 Equityin_{it}$				
Where:-						
EPS it = Earing per share of firm 1 for years t						
$\alpha_0 =$ The constant						
α_1 =The equity ratio for (service, investment, or Industrial sectors) response						
coefficient. The coefficient explain the role of equity in explaining the performance						
of firm I for year T.						

3.4.2.3 An Econometric Model for Testing the Third Sub Null Hypothesis

 \mathbf{H}_{2-3} There is no impact of firm's growth on the relationship between capital structure

components and the performance of the listed corporations on the PEX.

For examining this hypothesis, the data is divided into two portfolios (High Size

and Low Size firm). Presented below are the econometric models for testing this subhypothesis: -

Table (3.6)

Econometric Model for Testing the Firm's Growth on the relationship between

the firm's Growth (Debt) on the performance

Firm Growth Portfolios					
High Growth Low Growth					
Econome	tric Models				
$EPS_{it} = \alpha_0 + \alpha_1 Debh_{it}$	$EPS_{it} = \alpha_0 + \alpha_1 Debl_{it}$				
Where:-					
$EPS_{it} = Earing per share of firm I for year t.$					
α_0 = The constant.					
α_1 = The debt ratio for high or low growth response coefficient. The coefficient					
explain the role of debt in explaining the performance of firm I for year t.					

Table (3.7)

Econometric Model for Testing the Firm's Growth on the relationship between

the firm's Growth (Equity) on the performance

Firm Growth Portfolios					
High Growth Low Growth					
Econome	etric Models				
$EPS_{it} = \alpha_0 + \alpha_1 Equityh_{it}$	$EPS_{it} = \alpha_0 + \alpha_1 Equityl_{it}$				
Where:-					
$EPS_{it} = Earing per share of firm I for year t.$					
α_0 = The constant.					
α_1 = The Equity ratio for high or low growth response coefficient. The coefficient					
explain the role of equity in explaining the performance of firm I for year t.					

3.4.2.4 An Econometric Model for Testing the Fourth Sub Null Hypothesis

 $\mathbf{H}_{\mathbf{2-4}}$ There is no impact of firm's age on the relationship between capital structure

components and the performance of the listed corporations on the PEX.

For examining this hypothesis, the data is divided into two portfolios (High age

and Low age firm). Presented below are the econometric models for testing this subhypothesis: -

Table (3.8)

Econometric Model for Testing the Firm's Age on the relationship between the

firm's Age (Debt) on the performance

Firm Age Portfolios					
High Age	Low Age				
Econome	etric Models				
$EPS_{it} = \alpha_0 + \alpha_1 Debha_{it}$	$EPS_{it} = \alpha_0 + \alpha_1 Debla_{it}$				
Where:-					
$EPS_{it} = Earing per share of firm I for year t.$					
α_0 = The constant.					
α_1 = The debt ratio for high or low age firm's response coefficient. The coefficient					
explain the role of debt in explaining the performance of firm I for year t.					

Table (3.9)

Econometric Model for Testing the Firm's Age on the relationship between the

firm's Age (Equity) on the performance

Firm Age Portfolios					
High Age	Low Age				
Econome	tric Models				
$EPS_{it} = \alpha_0 + \alpha_1 Equityha_{it}$	$EPS_{it} = \alpha_0 + \alpha_1 Equity la_{it}$				
Where:-					
$EPS_{it} = Earing per share of firm I for yea$	r t.				
α_0 = The constant.					
α_1 = The Equity ratio for high or low age firm's response coefficient. The					
coefficient explain the role of equity in explaining the performance of firm I for					
year t.					

3.5 Research Design

The used methodology in this thesis consists of six stages, as the following: -

Step 1: Identifying the problem of research and building the research questions in order to get the required data about the effect of debt and equity on the performance of the non- financial corporations that listed on the PEX.

Step 2: Reviewing the previous literatures that related to the topic of this thesis by checking books, scholarly articles, and any other sources relevant to the debt and equity and the performance.

Step 3: Designing the research by using analytical correlated methodology that includes selecting the data collection tools for quantitative data to get the required result from this research.

Step 4: Analyzing the collected data to highlights the results.

Stage 5: Obtaining the finding of research.

Stage 6: Writes the result and recommendations.

3.6 Data Collection Techniques

This thesis follows the positive approach of accounting. This approach requires obtaining the quantitative data for examining the hypotheses. For this reason, the secondary data was collected from the annual reports of the listed corporations in the PEX.

3.7 Definition of Variables

The hypotheses of this thesis state that the firm's contextual factors (size, age, growth, and sector) have an effect on the relationship between the firm's capital structure and performance. Accordingly, this thesis utilizes the variables that used in the econometric models. Below are the definitions of the study variables.

3.7.1 Dependent Variable

The dependent variable represents the firm profit. In this thesis, the Earnings per Share is used to measure the performance. The Earnings per Share computed using the following equation:

EPS it =
$$\frac{NI_{it} - PSD_{it}}{NIOS_{it}}$$

Where; -

EPS_{it}: The Earnings per Share of firm I for period t.

NP_{it}: Net operating income after tax of firm I for period t.

PSD_{it}: Dividends on preferred stocks of firm I for period t.

NIOS_{it}: Average issued and outstanding common shares of firm I for year t.

3.7.2 Independent Variables

The independent variables are the debt and equity. The debt variable in calculated using the total debt/ total assets.

$$DR_{it} = \frac{TD_{it}}{TA_{it}}$$

Where:-

DR_{it}: The debt ratio of firm I for period t.

TD_{it}: Total debts of firm I for period t.

TA_{it}: Total assets of firm I for period t.

The equity variable in calculated using equity to total assets.

$$ER_{it} = \frac{TSE_{it}}{TA_{it}}$$

Where:-

 $Er_{it} = The equity ratio of firm I for period t$

TSE $_{it}$ = Total equity of firm I for period t

TA it: Total assets of firm I for period t.

3.7.3 Intermediate Variables

Intermediate variables are (firm's size, firm's age, firm's growth, and industry type) to divide the thesis sample into portfolios.

3.7.3.1 Firm's Size

The firm's size variable is used to divide the firms into (high size and low size firms) portfolios by using this equation: -

FS it = {log (R_{it})}

Where: -

FS $_{it}$ = the size of firm I for year t.

R_{it}: Total revenues of firm I for period t.

Log: The natural logarithm.

3.7.3.2 Firm's Age

Firm age variable is used to divide the sample into two portfolios (low age and high age firms). The median of the firm's age is used for formulating the two portfolios. The sample will be divided as followings:

If FA_{it} > median, these firms will be classified as larger size firms.

If FA_{it}< median, these firms will be classified as small size firms.

Where: -

FA_{it}= The age of firm I for year t

3.7.3.3 Industry Type

The industry type is used to divide the sample into three sectors(investment, service, industry sectors).

3.7.3.4 Firm's Growth

The firm's growth variable is used to divide the firms into two portfolios(high growth and low growth firms) by using this equation: -

$$GF_{it} = \frac{S_{it}}{S_{it-1}}$$

Where: -

 GF_{it} = the growth of firm I for year t.

 S_{it+1} : Total sales of firm I from the current year.

S_{it}: Total sales of firm I for the past year.

3.8 Statistical Analysis Approach

The collected data was analyzed using (SPSS) for exploring the hypotheses of the thesis. The statistical methods were used in this thesis include the following:

1. Means, frequencies, standard deviation and percentages.

- 2. Simple linear regression test.
- 3. Correlation matrix.

Chapter Four

Data Analysis and Discussion

4.1 Chapter Overview

This chapter comes to examine the hypotheses of this thesis. Presented below are the outcomes of this thesis.

4.2 Analysis of Data

This thesis aims to examine the impact of capital structure components on the performance of the non-financial corporations that listed on the PEX. Also, examining the impact of (firm's age, industry type, firm's size, and firm's growth) on capital structure – performance relationship.

4.2.1 Hypothesis Testing

In this thesis, the simple liner regression is used for examining the hypotheses. The null hypothesis assumes that there is no impact of the debts and equity on the performance of the non-financial listed corporations on the PEX. Moreover, this thesis explores the impact of four control variables (firm's age, industry type, firm's size and firm's growth) on the relationship between capital structure and the performance. The null hypothesis will be accepted if Alpha (Sig.) is greater than 0.05.

Figure (1) displays the graphical presentation of the independent variables (debt and equity), the dependent variables (the performance), and the control variables (firm's age, industry type, firm's size and firm's growth).



Figure 1

4.2.2 Results Related to Study Hypotheses

Presented Below are the outcomes of thesis hypotheses

4.2.2.1 Descriptive Statistic

This section comes to display the descriptive statistics of study variables.

Table (4.1):

Descriptive Statistics for the listed Non-Financial corporation's data in the years

Variables	Mean	Median	Maximum	Minimum	SD	N
EPS	0.172	0.078	1.403	0.000	0.245	189
Debt Ratio	0.286	0.287	0.429	0.008	0.186	240
Equity Ratio	0.713	0.712	0.570	0.220	0.813	240
Firm's Size	1.389	1.000	2.000	0.000	0.610	239
Industry Type	2.000	2.000	3.000	1.000	0.858	240
Firm's Growth	1.404	1.000	2.000	0.000	0.612	240
Firm's Age	1.433	1.500	2.000	0.000	0.616	240

2009-2016 (Pooled data)

Table 4.1 shows that the average of the EPS is positive and equal 17.2%. This result proves that the selected sample of corporations in average achieves profit. Also, the mean of debt ratio is positive and equals 28.6%; and the average of equity ratio is positive and equals 71.3%. These results prove that the non-financial firms use the equity financing more than the debt financing. Moreover, firm's size has positive average and equal 1.389. Also, the firm's growth is positive and equal 1.404.

4.2.2.2 Correlation Matrix

Table (4.2):

Correlation matrix for the relationships between non-financial listed corporation variables in the years 2009-2016

Variables	Age	Growth	Industry type	Size	Equity	Debt
Firm's EPS	-0.0025	-0.082	0.143*	0.275**	0.045	-0.048
Debt ratio	0.113	-0.044	-0.240**	-0.023**	0.113	
Equity ratio	0.056	-0.041	-0.067	-0.034		
Firm's Size	-0.230	0.137*	-0.316**			
Industry type	-0.240	-0.072				
Firm's Growth	-0.044					

* Significant at 0.05

Table 4.2 explains the outcomes of Pearson correlation statistics for pooled time series of the Earning per share, debt ratio, equity ratio, firm's size, Industry type, firm's growth and firm's age. The correlation test demonstrates the following findings:

There is insignificant negative relationship between the EPS and age where the correlation coefficient equals -0.0025. Also, there is insignificant negative relationship between the EPS and Growth where the correlation coefficient is equal - 0.082. And there is significant positive relationship between the EPS and industry type where the correlation coefficient equals 0.143 at a significant level 0.05. In addition; the correlation matrix shows that there is significant positive relationship between firm's size and EPS where the correlation coefficient equals 0.0275. Moreover; there is significant positive relationship between the EPS and equity where the correlation coefficient equals 0.045. Finally, there is insignificant negative relationship between the EPS and debt where the correlation coefficient equals -0.048.

4.2.2.3 Result Related to the First Hypothesis

The Hypothesis number one states there is no effect of capital structure formulation on the performance of the non-financial firms that listed on the PEX. This hypothesis consists of two sub-hypotheses; the first sub hypothesis is: -

 H_{1-1} , There is no impact of debts on the performance of the non-financial corporations that listed on the PEX.

Table (4.3)

Linear regression test to determine the effect of debt on the performance of the

$EPS_{it} = \alpha_0 + \alpha_1 Debt_{it}$							
Years	Constant	Coefficient	F-Value	R ²	Sig.	Adjusted R ²	
2009	0.049	0.233	1.614	0.055	0.214	0.021	
2010	0.147	0.011	0.002	0.000	0.961	-0.050	
2011	0.114	0.074	0.110	0.005	0.744	-0.044	
2012	0.174	-0.239	1.213	0.057	0.284	0.010	
2013	0.174	-0.076	0.106	0.006	0.749	-0.049	
2014	0.174	-0.076	0.106	0.006	0.749	-0.049	
2015	0.218	-0.063	0.083	0.776	0.004	-0.043	
2016	0.233	-0.045	0.044	0.002	0.836	-0.043	
Pooled	0.191	-0.048	0.426	0.002	0.515	-0.003	

non-financial listed corporation on the PEX

* Significant at 0.05

Table (4.3) shows the outcomes of regression analysis for examining H_{1-1} . The outcomes show that the F-Value for the pooled data is equal 0.426 at 0.515 significant value. This result proves that there is a positive insignificant impact of debts on the performance of the non-financial listed corporations on the PEX. Also, the value of R^2 is 0.002, which indicates weak impact of debts on the performance.

 H_{1-2} : There is no impact of equity on the performance of the non-financial corporations listed on the PEX.

Table (4.4)

Linear regression test to determine the effect of equity on the performance of the non- financial listed corporation on the PEX

$EPS_{it} = \alpha_0 + \alpha_1 Equity_{it}$													
Years	Constant	Coefficient	F-Value	R ²	Sig.	Adjusted R ²							
2009	0.260	-0.233	1.613	0.054	0.215	0.021							
2010	0.163	-0.017	0.006	0.000	0.940	-0.050							
2011	0.182	-0.093	0.173	0.009	0.682	-0.041							
2012	-0.041	0.239	1.213	0.057	0.284	0.010							
2013	0.089	0.076	0.106	0.006	0.749	-0.049							
2014	0.089	0.076	0.106	0.006	0.749	-0.049							
2015	0.110	0.063	0.083	0.004	0.776	-0.043							
2016	0.144	0.045	0.044	0.002	0.836	-0.043							
Pooled	0.126	0.045	0.381	0.002	0.538	-0.003							

* Significant at 0.05

Table (4.4) shows the outcomes of regression analysis for examining H_{1-2} . The outcomes show that the F-Value for the pooled data is equals 0.381 at 0.538 significant values. This result proves that there is a positive insignificant impact of equity on the performance for the non-financial listed corporation on the PEX. Also, the value of R^2 is 0.002, which indicates weak impact of equity on the performance.

4.2.2.5 Result Related to the Second Hypotheses

The sub-hypotheses number two states that: -

 H_2 : There is no impact of (firm's size, industry type, firm's growth and firm's age) on the relationship between capital structure component and the performance for the non-financial listed corporation on the PEX.

This hypothesis consists of four sub hypotheses. Presented below are the outcomes of theses sub-hypotheses.

4.2.2.5.1 Testing the First Sub Hypothesis

 H_{2-1} : There is no impact of firm's size on the relationship between capital structure components and the performance of the listed corporations on the PEX.

Table (4.5)

Linear regression test to determine the impact of firm's size on the relationship between debt and performance for the non-financial listed corporation on the PEX

Firm Size																		
						I	Debt											
	EPS	$S_{it} = \alpha_0 + \alpha_0$	$+ \alpha_1 De$	ebh _{it}		$EPS_{it} = \alpha_0 + \alpha_1 Debl_{it}$												
High Size							Low Size											
Years	Constant	Coefficient	Ы	R^2	Adj_{R^2}	Sig.	Years	Constant	Coefficient	Ч	R^{2}	$\operatorname{Adj-}_{R^2}$	Sig.					
2009	0.25	-0.16	0.31	0.02	-0.06	0.58	2009	0.057	-0.06	0.02	0.00	-0.12	0.87					
2010	0.38	-0.36	1.45	0.12	0.04	0.26	2010	-0.01	0.46	1.88	0.21	0.09	0.21					
2011	0.35	-0.35	2.02	0.12	0.06	0.18	2011	0.05	0.21	0.35	0.042	-0.078	0.57					
2012	0.55	-0.62	4.47	0.39	0.30	0.07	2012	0.088	-0.42	1.67	0.173	0.069	0.24					
2013	0.23	-0.12	0.13	0.02	-0.10	0.78^{a}	2013	0.215	0.041	0.02	0.00	-0.09	0.89					
2014	0.19	-0.06	0.03	0.00	-0.11	0.88	2014	0.14	0.13	0.23	0.017	-0.059	0.64					
2015	0.31	-0.40	2.291	0.16	0.090	0.16	2015	0.003	0.535	0.85	0.28	-0.070	0.46					
2016	0.09	-0.19	0.16	0.04	-0.20	0.72	2016	-0.11	0.66	6.81	0.431	0.367	0.03*					
Pooled High	0.31	-0.31	10.00	0.09	0.088	0.00	Poole d low	0.08	0.16	1.99	0.024	0.012	0.16					

* Significant at 0.05

Table 4.5 shows the statistics that examine the impact of firm size on debtsperformance relationship. The outcomes show that the debt influence on the high size firm's performance greater than the low size firms. Where the F-value regression for high size firms is 10.005 is statistically significant at 0.002, Also, F-Value for low size firms is 1.985 is statistically insignificant.

Table (4.6)

Linear regression test to determine the impact of firm's size on the relationship between equity and performance for the non-financial listed corporation on the PEX

Einn Siza Danity																	
riim Size- Equity																	
		$EPS_{it} =$	$\alpha_0 + \alpha_1$	Equity	h _{it}	$EPS_{it} = \alpha_0 + \alpha_1 Equityl_{it}$											
High Size								Low Size									
Years	Constant Coefficient F R ² R ² Sig.					Sig.	Years	Constant	Coefficient	ł	R ²	${ m Adj.} R^2$	Sig.				
2009	0.06	0.16	0.31	0.03	-0.06	0.59	2009	0.032	0.06	0.03	0.000	-0.12	0.88				
2010	0.88	-0.71	0.67	0.13	-0.06	0.53	2010	0.46	-0.46	1.87	0.21	0.09	0.21				
2011	-0.16	0.34	1.98	0.11	0.05	0.18	2011	0.15	-0.20	0.35	0.04	-0.08	0.57				
2012	-0.47	0.62	4.47	0.39	0.30	0.07	2012	-0.07	0.41	1.67	0.17	0.07	0.23				
2013	0.06	0.12	0.13	0.02	-0.11	0.73	2013	0.28	-0.14	0.02	0.00	-0.09	0.89				
2014	0.10	0.06	0.03	0.00	-0.11	.870 ^a	2014	0.35	-0.47	0.22	0.02	-0.06	0.64				
2015	-0.06	0.40	2.29	0.16	0.09	0.16	2015	0.08	-0.54	0.80	0.29	-0.07	0.47				
2016	0.02	0.19	0.16	0.04	-0.20	0.71	2016	1.11	-0.66	6.81	0.43	0.37	0.03				
Pooled High	-0.09	0.31	9.90	0.09	0.08	0.002*	Pooled low	0.27	-0.15	1.98	0.02	0.01	0.16				

* Significant at 0.05

Table 4.6 shows the statistics, which examine the impact of firm size on equityperformance relationship. The outcome shows that the equity influence on the performance for the high size firms greater than the low size firms. Where the F-value for high size firms is 9.900, it statistically significant at 0.002. Also, F-Value for low size firms is 1.985, it statistically insignificant.

4.2.2.5.2 Testing the Second Sub Hypotheses

 H_{2-2} : There is no impact of industry type on the relationship between capital structure components and the performance of the listed corporations on the PEX.

Table (4.7)

Linear regression test to determine the impact of Industry type on the relationship between debt and performance for the nonfinancial listed corporation on the PEX

	Industry type – Debt																					
$EPS_{it} = \alpha_0 + \alpha_1 Debs_{it}$								$EPS_{it} = \alpha_0 + \alpha_1 Debi_{it}$							$EPS_{it} = \alpha_0 + \alpha_1 Debin_{it}$							
Service							Investment						Industry									
Years	Constant	Coefficient	Ł	R^2	Adj- R^2	Sig .	Years	Constant	Coefficient	Γ.	R^{2}	Adj- R ²	Sig .	Years	Constant	Coefficient	Γ.	R ²	Adj- R ²	Sig.		
2009	0.125	-0.014	0.001	0.000	-0.143	0.971	2009	-0.008	0.576	2.478	0.331	0.198	0.176	2009	0.261	-0.256	0.492	0.066	-0.068	0.506		
2010	0.158	-0.001	0.000	0.000	-0.250	0.998	2010	0.023	0.325	0.589	0.105	-0.074	0.477	2010	0.283	-0.114	0.106	0.013	-0.110	0.753		
2011	0.256	-0.198	0.163	0.039	-0.201	0.707	2011	0.035	0.480	1.496	0.230	0.076	0.276	2011	0.243	-0.298	0.683	0.089	-0.041	0.436		
2012	0.245	-0.243	0.375	0.059	-0.098	0.563	2012	0.039	0.003	0.000	0.000	-0.333	0.996	2012	0.283	-0.344	1.074	0.118	0.008	0.330		
2013	0.163	0.083	0.048	0.007	-0.135	0.833	2013	0.042	0.263	0.298	0.069	-0.163	0.614	2013	0.475	-0.392	1.631	0.153	0.059	0.234		
2014	0.117	0.051	0.013	0.003	-0.197	0.913	2014	-0.002	0.793	10.183	0.629	0.567	0.019*	2014	0.344	-0.227	0.436	0.052	-0.067	0.528		
2015	0.245	-0.037	0.001	0.000	-0.143	0.971	2015	0.023	0.260	0.362	0.068	-0.119	0.573	2015	0.491	-0.334	0.751	0.111	-0.037	0.419		
2016	0.030	0.253	0.481	0.064	-0.069	0.510	2016	0.019	0.384	1.035	0.147	0.005	0.348	2016	0.664	-0.384	1.213	0.148	0.026	0.307		
Pooled	0.152	0.043	0.114	0.002	-0.014	0.736	Pooled	0.028	0.355	6.934	0.126	0.108	0.011*	Pooled	0.374	-0.287	6.617	0.082	0.070	0.012**		

* Significant at 0.05

Table 4.7 shows the statistics that examine the impact of industry type on debtperformance relationship.

The outcomes show that the industry type influence on the (investment and industrial corporation) debts and performance relationship, it is greater than the service corporation. Where the regression F-value for the (investment and Industrial Corporation) is (6.934 and 6.617 respectively) it is statistically significant. Also, the F-Value for service corporation is 0.114 it is statistically insignificant.
Table (4.8)

Linear regression test to determine the impact of Industry type on the relationship between equity and performance for the nonfinancial listed corporation on the PEX.

	Industry type – Equity																			
$EPS_{it} = \alpha_0 + \alpha_1 Equitys_{it}$ EP									$EPS_{it} = \alpha_0 + \alpha_1 Equityi_{it}$				$EPS_{it} = \alpha_0 + \alpha_1 Equityin_{it}$							
Service								Investment					Industry							
Years	Constant	Coefficient	Ξ.	R ²	Adj- R^2	Sig.	Years	Constant	Coefficient	Σ.	R ²	Adj- R ²	Sig.	Years	Constant	Coefficient	ſ Ŀ	R ²	Adj- R ²	Sig.
2009	0.112	0.014	0.001	0.000	-0.143	0.971	2009	0.375	-0.574	2.461	0.330	0.196	0.177	2009	0.014	0.256	0.492	0.066	-0.068	0.506
2010	0.181	-0.020	0.002	0.000	-0.250	0.971	2010	0.266	-0.325	0.589	0.105	-0.074	0.477	2010	0.165	0.114	0.106	0.013	-0.110	0.753
2011	-0.029	0.195	0.158	0.038	-0.202	0.711	2011	0.164	-0.589	2.662	0.347	0.217	0.164	2011	0.005	0.298	0.683	0.089	-0.041	0.436
2012	-0.060	0.243	0.375	0.059	-0.098	0.563	2012	0.039	-0.003	0.000	0.000	-0.333	0.996	2012	-0.112	0.344	1.074	0.118	0.008	0.330
2013	0.250	-0.083	0.048	0.007	-0.135	0.833	2013	0.147	-0.263	0.298	0.069	-0.163	0.614	2013	-0.324	0.392	1.631	0.153	0.059	0.234
2014	0.174	-0.051	0.013	0.003	-0.197	0.913	2014	0.757	-0.793	10.183	0.629	0.567	0.019	2014	-0.021	0.227	0.436	0.052	-0.067	0.528
2015	0.218	0.014	0.001	0.000	-0.143	0.971	2015	0.138	-0.260	0.362	0.068	-0.119	0.573	2015	-0.266	0.334	0.751	0.111	-0.037	0.419
2016	0.479	-0.253	0.481	0.064	-0.069	0.510	2016	0.203	-0.384	1.035	0.147	0.005	0.348	2016	-0.583	0.384	1.213	0.148	0.026	0.307
Pooled	0.215	-0.046	0.129	0.002	-0.014	0.721	Pooled	0.191	-0.370	7.616	0.137	0.119	0.008	Pooled	-0.113	0.287	6.617	0.082	0.070	0.012*

* Significant at 0.05

Table 4.8 shows the statistics that examine the impact of industry type on equityperformance relationship.

The outcomes show that the industry type influences on the (investment and industrial corporations) equity and performance relationship, it is greater than the service corporations. Where the F-values for the (investment and industrial corporation) are (7.616 and 6.617 respectively), it is statistically significant. Also, the F-Value for service corporation is 0.129 it is statistically insignificant.

4.2.2.5.3 Testing the Third Sub Hypotheses

 H_{2-3} : There is no impact of firm's growth on the relationship between capital structure components and the performance of the listed corporations on the PEX.

Table (4.9)

Linear regression test to determine the impact of firm's growth on the relationship between debt and performance for the non-financial listed corporation on the PEX

	Growth – Debt															
$EPS_{it} = \alpha_0 + \alpha_1 Debh_{it}$								$EPS_{it} = \alpha_0 + \alpha_1 Debl_{it}$								
	High Growth								Low Growth							
Years	Constant	Coefficient	Ĩ	R ²	Adj- R ²	Sig.	Years	Constant	Coefficient	ί.	R ²	${ m Adj.} R^2$	Sig.			
2009	0.112	0.015	0.002	0.000	-0.100	0.964	2009	0.108	0.164	0.250	0.027	-0.081	0.629			
2010	0.083	0.238	0.541	0.057	-0.048	0.481	2010	0.252	-0.207	0.584	0.043	-0.031	0.458			
2011	0.132	0.171	0.270	0.029	-0.079	0.616	2011	0.225	-0.472	2.004	0.223	0.112	0.200			
2012	0.149	0.119	0.143	0.014	-0.085	0.714	2012	0.175	-0.291	0.740	0.085	-0.030	0.415			
2013	0.461	-0.316	1.439	0.100	0.030	0.252	2013	0.053	0.293	0.752	0.086	-0.028	0.411			
2014	0.146	0.017	0.004	0.000	-0.083	0.953	2014	0.022	0.466	1.939	0.217	0.105	0.206			
2015	0.182	0.118	0.141	0.014	-0.085	0.715	2015	0.179	0.093	0.079	0.009	-0.101	0.785			
2016	-0.133	0.870	9.361	0.757	0.676	0.055	2016	0.021	0.361	0.900	0.130	-0.015	0.379			
Pooled High	0.201	-0.007	0.004	0.000	-0.011	0.950	Pooled low	0.137	0.021	0.036	0.000	-0.012	0.849			

* Significant at 0.05

Table 4.9 shows the statistics that examine the impact of firm's growth on debtperformance relationship.

The outcomes show that the debt influence on the high growth firms performance; it is greater than the low growth firms. Where the F-value for the high size firms is 0.004; it is statistically insignificant, Also, F-Value for low size firms is 0.036; it is statistically insignificant.

Table (4.10)

Linear regression test to determine the impact of firm's growth capital on the relationship between equity and performance for the non-financial listed corporation on PEX

	Growth – Equity														
$EPS_{it} = \alpha_0 + \alpha_1 Equityh_{it}$								$EPS_{it} = \alpha_0 + \alpha_1 Equityl_{it}$							
		Η	igh Gr	owth			Low Growth								
Years	Constant	Coefficient	Ĩ	R^2	Adj- R ²	Sig.	Years	Constant	Coefficient	Ĩ	R^2	Adj- R ²	Sig.		
2009	0.121	-0.014	0.002	0.000	-0.100	0.964	2009	0.315	-0.164	0.250	0.027	-0.081	0.629		
2010	0.266	-0.238	0.541	0.057	-0.048	0.481	2010	-0.012	0.179	0.429	0.032	-0.043	0.524		
2011	0.320	-0.171	0.270	0.029	-0.079	0.616	2011	-0.163	0.472	2.004	0.223	0.112	0.200		
2012	0.264	-0.119	0.143	0.014	-0.085	0.714	2012	-0.116	0.291	0.740	0.085	-0.030	0.415		
2013	-0.258	0.316	1.439	0.100	0.030	0.252	2013	0.621	-0.293	0.752	0.086	-0.028	0.411		
2014	0.169	-0.017	0.004	0.000	-0.083	0.953	2014	0.177	-0.466	1.939	0.217	0.105	0.206		
2015	0.522	-0.118	0.142	0.014	-0.085	0.715	2015	0.341	-0.093	0.079	0.009	-0.101	0.785		
2016	2.438	-0.870	9.361	0.757	0.676	0.055	2016	0.090	-0.361	0.900	0.130	-0.015	0.379		
Pooled High	0.191	0.007	0.004	0.000	-0.011	0.950	Pooled low	0.167	-0.026	0.057	0.001	-0.012	0.812		

* Significant at 0.05

Table 4.10 shows the statistics that examine the impact of firm growth on equityperformance relationship.

The outcomes show that the equity influence on the high growth firms performance greater than the low growth firms. Where the regression F-value for the high size firms is 0.004; it is statistically insignificant, Also, regression F-Value for the low size firms is 0.057; it is statistically insignificant.

4.2.2.5.4 Testing the Fourth Sub Hypotheses

 H_{2-4} : There is no impact of firm's age on the relationship between capital structure components and the performance of the listed corporations on the PEX.

Table (4.11)

Linear regression test to determine the impact of firm's age on the relationship between debt and performance for the non-financial listed corporation on the PEX

	Firm age -Debt														
$EPS_{it} = \alpha_0 + \alpha_1 Debha_{it}$								$EPS_{it} = \alpha_0 + \alpha_1 Debla_{it}$							
High Age							Low Age								
Years	Constant	Coefficient	Ł	R^2	Adj- R ²	Sig.	Years	Constant	Coefficient	R ²	Adj- R ²	Sig.			
2009	0.250	-0.356	1.302	0.126	0.029	0.283	2009	0.057	0.240	0.613	0.058	-0.036	0.452		
2010	0.287	-0.216	0.391	0.047	-0.073	0.549	2010	0.089	0.173	0.278	0.030	-0.078	0.611		
2011	0.285	-0.493	2.897	0.243	0.159	0.123	2011	0.101	0.109	0.084	0.012	-0.129	0.780		
2012	0.254	-0.354	1.431	0.125	0.038	0.259	2012	0.117	0.011	0.001	0.000	-0.111	0.975		
2013	0.327	-0.199	0.453	0.040	-0.048	0.515	2013	0.154	0.012	0.001	0.000	-0.100	0.970		
2014	0.295	-0.674	0.455	0.043	-0.052	0.515	2014	0.051	0.192	0.269	0.037	-0.101	0.620		
2015	0.366	-0.287	0.805	0.082	-0.020	0.393	2015	0.054	0.234	0.520	0.055	-0.050	0.489		
2016	0.440	-0.269	0.779	0.072	-0.020	0.398	2016 -0.019 0.359 1.477 0.129 0.042 0.252						0.252		
Pooled	0.316	0263	6.695	0.069	0.059	0.011*	Pooled	0.076	0.194	3.349	0.037	0.026	0.071		
High							low								

* Significant at 0.05

Table 4.11 shows the statistics that examine the impact of firm age on debtperformance relationship.

The outcomes show that the debt influence on the high age firms performance, it greater than the low age firms. Where the regression F-value for high age firms is 6.695; statistically significant. Also, the regression F-Value for low age firms is 3.349; it is statistically insignificant.

Table (4.12)

Linear regression test to determine the impact of firm's age on the relationship between equity and performance for the non-financial listed corporation on the PEX

	Firm age -Equity													
$EPS_{it} = \alpha_0 + \alpha_1 Equityha_{it}$								$EPS_{it} = \alpha_0 + \alpha_1 Equityla_{it}$						
High Age								Low Age						
Years	Constant	Coefficient	Ŗ	R ²	Adj- R ²	Sig.	Years Constant Coefficient F R ² Adj- R ²						Sig.	
2009	-0.052	0.356	1.303	0.126	0.029	0.283	2009	0.281	-0.240	0.613	0.058	-0.036	0.452	
2010	0.055	0.216	0.391	0.047	-0.073	0.549	2010	0.370	-0.608	0.370	0.039	-0.067	0.558	
2011	-0.122	0.493	2.897	0.243	0.159	0.123	2011	0.313	-0.168	0.204	0.028	-0.110	0.665	
2012	-0.096	0.354	1.431	0.125	0.038	0.259	2012	0.131	-0.011	0.001	0.000	-0.111	0.975	
2013	0.029	0.199	0.453	0.040	-0.048	0.515	2013	0.168	-0.038	0.001	0.000	-0.100	0.970	
2014	0.050	0.674	0.455	0.043	-0.052	0.515	2014	0.343	-0.192	0.269	0.037	-0.101	0.620	
2015	-0.152	0.287	0.805	0.082	-0.020	0.393	2015	0.431	-0.234	0.520	0.055	-0.050	0.489	
2016	-0.202	0.269	0.779	0.072	-0.020	0.398	2016	0.619	-0.359	1.477	0.129	0.042	0.252	
Pooled	-0.059	0.263	6.695	0.069	0.059	0.011*	Pooled	0.365	-0.203	3.715	0.041	0.030	0.057	
High							low							

* Significant at 0.05

Table 4.12 shows the statistics that examine the impact of firm age on equityperformance relationship.

The outcomes show that the equity influence on the high age firm performance, it is greater than the low age firms. Where the regression F-value for the high age firms is 6.695; statistically significant. Also, the regression F-Value for the low age firms is 3.715; it is statistically insignificant.

Chapter Five

Conclusion and Recommendation

This chapter comes to present the conclusion and recommendations of this thesis.

5.1 Conclusion

This chapter provides a debate results that examining the impact of capital structure components on the Performance of the non-financial corporations listed on the (PEX). It also examines the influence of the corporation contextual factors (firm's age, firm's size, firm's growth and industry type) on the capital structure and performance relationship by dividing the data into portfolios, according to the firm's age, firm's size, firm's growth and industry type. The achievement of the previous objectives requires obtaining financial data from the non-financial listed corporations on the PEX for the years 2009-2016. In addition, the study utilizes a number of statistical tests (descriptive statistics, Pearson's correlation, and liner regression). 30 non-financial corporations that listed on the PEX were selected to examine the hypotheses. This methodology is similar to the study of (Daraghma, 2014), which examines the impact of firm size, and firm debts level on the debt and profitability relationship of the industrial listed corporations on the PEX. The study of (Chen and Strange, 2005) examines the effect of firm's size, firm's age, business risk, sale growth rate, tax, profitability and intangible assets on the performance.

Presented below are the findings of this thesis:

(1). There is a positive insignificant impact of debts on the performance of the nonfinancial corporations that listed on the PEX, this means; that the non-financial corporations do not use the financial leverage in the efficient way. The result is similar to (Shubita,2013) paper, he showed that the Palestinian listed firms have low leverage ratio.

(2). There is a positive insignificant impact of equity on the performance of the nonfinancial listed corporation on the PEX. This result is similar to (Leon, 2013) paper; who found a significant relationship between equity and performance in Sri Lanka.

(3). The debts have influence on the performance for high size firm's greater than the low size firms. Also, the high size firms have credit position better than the low size firms. The high size firms can obtain external financing to finance its project greater than the low size firm, these results are similar to (Ezeoha, 2008) study.

(4). The equity influencing on the performance for high size firms greater than the low size firms. This result proves that the high size firms can exploit its equity better than the low size firms. This result is similar to (Githire and Muturi, 2015) paper, their study concludes that the equity of high size firms influencing on the performance greater than the low size firms and having a positive and significant impact on the performance.

(5). The impact of debts on the performance is influenced by industry type. This thesis concludes that the strongest relationship for the investment and industry sector. Also, there is a weak relationship for service sector. This result is similar to (Daraghma,

2014) paper, which concluded that debt has a positive impact on the financial performance of the industrial corporations, and the financial leverage has a positive impact on the profitability for low and high size firms, while the high size firms can exploit their debts in feasible way better than low size firms.

(6). The impact of equity on the performance is influenced by industry type, this thesis concludes that the strongest relationship for the investment and industry sector. Also, there is a weak relationship for service sector.

(7). The impact of debt on performance is influenced by the growth of the firms. The debts have impact on the performance for the high growth firms greater than the low growth firms. This mean the high size firms exploits the debt better than the low size firms. The result correspondent with (Michaela's and Chittenden, 1999), the study results concluded that firms with rapid growth opportunities are looking for more debt attributed to the lack of internal earnings. It is expected that growth opportunity positive relationship with debt.

(8). The impact of equity on the performance is influenced by the growth of the firm. The equity influencing on the performance for the high growth firms greater than the low growth firms. This result is similar to (Cespedes, 2010), he showed that there is a positive relationship between growth and performance and a positive relationship between equity and performance.

(9). The influence of debt on the performance is influenced by the age of the firm. The debts have impact on the performance for the high age firm's greater than the low age firms. This result is similar to (Hall et al, 2004) paper.

(10). The impact of equity on the performance is influenced by the age of the firm. The equity has influencing on the performance for the high age. This mean that the firm has a long age can use the equity better than the firm that has a low life. This result is similar to the study of (Leon, 2013) which showed that there is a significant relationship between performance and equity.

5.2 Recommendation

Upon the findings of this study, the following recommendations are made: -

- 1. The corporations that listed on the PEX should use the debt financing such as bonds, banking loans to maximize the financial performance.
- The corporations that listed on the PEX should develop new strategies that assist these corporations to use equities efficiently to maximize the financial Performance.
- 3. The PEX, government and policymakers in Palestine should attempt to remove any inflexible policies which could delay the active using of financing sources.

5.3 Suggested Future Research

This thesis recommended other researchers to explore the following topics: -

- The influence of capital structure on company failure in Palestine.
- The influence of tax rates, interest rate, Gross Domestic Product [GDP] and inflation on corporate financial performance.
- The effect of ownership structure on firm's financial performance.
- A comparison between the financial performance of firms which depend on Islamic financing with others which depend on conventional financing.

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No.	Company Name	Symbol
1	Palestine Telecommunication Group	PALTEL
2	Arab Palestine Shopping Center	PLAZA
3	Palestine company for Distribution & Logistics Service	WASSEL
4	Palestine Electric Company	PEC
5	The Arab Hotels Company	AHC
6	Arab Real Establishment Company	ARE
7	Global com Telecommunications	GCOM
8	Nablus Special Hospital	NSC
9	Al-Wataniah Towers	ABRAJ
10	The Ramallah Summer Resorts	RSR
11	Wataniya Palestine Mobile Telecommunications	WATANITA
12	Arab Company for Paint Products	APC
13	Jerusalem Pharmaceuticals Co Ltd	JPH
14	The National Carton Industry	NCI
15	Birzeit Pharmaceuticals Company	BPC
16	Palestine Poultry Company Ltd	AZIZA
17	Jerusalem Cigarette Co. Ltd	JCC
18	Palestine Plastic Industry Company	LADAEN
19	The Vegetable Oil Industry Company	VOIC
20	Golden Wheat Mills	GMC

21	National Aluminum & Profile	NAPCO
22	Al-Shark Electrode	ELECTRODE
23	Union Construction and Investment	UCI
24	Palestine Investment & Development Co	PID
25	Jerusalem Real Estate Investment Co	JREI
26	Arab Investors Co . Ltd	ARAB
27	Palestine Industrial Investment Company	PIIC
28	The Palestine Real Estate Investment	PRICO
29	Palestine Development& Investment	PADICO
30	Al-Aqariya Trading investment	AQARIYA

ملخص

تهدف هذه الرسالة إلى اختبار أثر هيكل رأس المال على أداء الشركات غير المالية المدرجة في سوق فلسطين للأوراق المالية، وتهدف أيضاً الى اختبار تأثير العوامل الوسيطة وهي (حجم الشركة، وعمرها، وقطاعها، ونموها) على العلاقة بين هيكل رأس المال وأداء تلك الشركات، وتم فحص تأثير هذه العوامل من خلال تصنيف البيانات إلى محافظ وفقاً (لحجم الشركة، وعمرها وقطاعها ونموها).

واعتمدت هذه الدراسة على المنهج الكمي التطبيقي حيث تم الرجوع إلى مجموعة من الكتب والدراسات السابقة التي تناولت هذا الموضوع. ويتكون مجتمع الدراسة من جميع الشركات غير المالية المدرجة في سوق فلسطين للأوراق المالية وهي (الشركات الصناعة، والخدمية، والاستثمارية) للفترة الواقعة ما بين 2009 إلى 2016، وتم اختيار عينة مكونه من 30 شركة انطبقت عليها شروط اختيار عينة الدراسة. وتم استخدام عدد من الاختبارات الإحصائية وهي (الإحصاء الوصفي، ومعامل ارتباط بيرسون، والانحدار الخطي). وقد توصلت هذه الرسالة إلى مجموعة من النتائج وكان من أهمها: -

إن هذالك تأثير موجب ووغير مهم إحصائياً لنسبة الدين على أداء الشركات الغير مالية المدرجة في سوق فلسطين لـلأوراق المالية. وهذالك تـأثير موجب وغير مهم إحصائياً للتمويل بالملكية على أداء الشركات الغير مالية المدرجة في سوق فلسطين لـلأوراق المالية. ويكون تـأثير الدين على أداء الشركات أكبر كلما زاد حجم الشركة فالشركات كبيرة المالية ويكون تـأثير الدين على أداء الشركات أكبر كلما زاد حجم الشركة فالشركات كبيرة الحجم قـادرة على استغلال الدين بشكل أمثل من الشركات صغيرة الحجم. وأن تـأثير الدين والملكية على أداء الشركات يتباين تبعاً للقطاع، ووجد ان الشركات الصناعية الأكثر قـدرة على استغلال هيكل رأس المال التحقيق الأداء، ويليها قطاع الاستثمار، أما قطاع الخدمات فلم ينجح في استغلال هيكل رأس المال بشكل مثالي لتعظيم الأداء. ولم يكن لمتغير نمو الشركة أي أثر على العلاقة بين هيكل رأس المال بشكل مثالي التعظيم الأداء. والم يكن المتغير نمو الشركة أي أثر على العلاقة بين هيكل رأس المال بشكل مثالي التعظيم الأداء. والم يكن المتغير نمو الشركة أي أشر على العلاقة بين هيكل رأس المال المال بتكل مثالي التعظيم الأداء. واله كاما زاد عمر الشركة

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وبناء على النتائج السابقة فقد تم وضع عدد من التوصيات وكان من اهمها: -

 توصي الرسالة الشركات المدرجة في سوق فلسطين للأوراق المالية أن تستخدم التمويل بالدين مثل السندات والقروض البنكية لتحسين اداءها المالي. استراتيجيات جديده تساعدها على استخدام التمويل بالملكية بشكل أكثر كفاءه من اجل تعظيم اداءها المالي.

3. توصي الرسالة كل من سوق فلسطين للأوراق المالية والجهات الحكومية وصانعي

السياسات أن يطوروا السياسات الاستثمارية التي تقود الى استخدام أساليب التمويل

المختلفة.