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Mediation Effects of Financial Performance between Assets Utilization and the Market Value of Palestinian Listed Firms

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ABSTRACT

Purpose: This paper examines the impact of asset utilization on the firm's market value and the mediating role of financial performance on a sample of non-financial sectors listed on the Palestinian stock exchange from 2010 to 2018.
Design/methodology/approach: This study uses a quantitative research approach as it incorporates financial variables, including assets utilization, financial performance (ROA), market value, growth opportunities, firm size, and debt ratio.
Findings: The analysis indicates that asset utilization enhances the financial performance of firms and, in turn, the market value of firms. Thus, financial performance mediates the relationship between asset utilization and the firm's market value. Additionally, the growth opportunities and the firm's size positively and directly affect the financial performance. It also indirectly impacts the market value of the firm. In contrast, the debt ratio has a negative impact on financial performance and market value. Generally, these findings are aligned with Signalling and Agency Theories predictions in light of weak corporate governance and high concentration ownership in Palestine and investors' concerns regarding wasting firm assets, unless it enhances the firm's financial performance.
Research limitations/implications: This study was conducted using a sample of non-financial Palestinian sectors. Thus, future studies may examine factors included in this study on Palestinian financial industries to generalize findings for the Palestinian market. Additionally, this study used share prices to measure the market value of firms and return on assets as a measure of financial performance. Thus, future studies may consider other criteria, such as price to book value (to gauge whether a stock is valued correctly.
Originality/value: Palestine is one of the countries in MENA region that has unclear effects of asset utilization on firm's performance. Accordingly, this study highlights investors' fear regarding mismanagement related to the utilization of a firm's assets, particularly where there is a negative relationship between asset utilization and market value but a positive impact on financial performance. This paper provides a clear empirical evidence on how the asset utilization could be utilized in such market to reduce agency problem and to signal quality management to the outsiders.

Keywords: assets utilization, financial performance, market value, Palestine.

I. Introduction

Today, the desire for success by managers of a

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firm in a competitive business environment places a massive responsibility on how to employ company assets effectively and efficiently to realize the creation of wealth for stockholders and attain other aims of the company(Ofor & Farajimakim, 2020). Thus, the efficient use of available company assets by managers helps achieve organizational objectives, a primary performance measure and distinguishing factor between efficient and non-efficient managers(Shen & Kim, 2007). This prerogative may sometimes raise the director's investment opportunities. However, it also increases the difficulty of stockholders in assessing managerial actions in using assets, thus, creating asymmetric information problems and agency conflicts(Rhim et al., 2014). There is a relationship between management and stockholders regarding the utilization of assets and its effects on the company's net worth (market value of the firm) (Xu & Kim, 2007). Despite the significance of the utilization of assets to company net worth,fewer empirical studies have been conducted on this topic (Ofor & Farajimakim, 2020). In this paper, the impact of the utilization of assets on the market value of a firm with the mediating role of financial performance in Palestine is examined. To the researchers' best knowledge, there have been no previous studies conducted on this research subject in Palestine. The business environment in Palestine as an emerging market may differ from the advanced market in terms of a lack of resources, weak corporate governance, high asymmetric information (lack of disclosure), and the nature of firm ownership structure (highly concentrated and family-based ownership) (Dwaikat, Gallali, et al., 2021; Dwaikat, Qubbaj, et al., 2021).Further, in the context of Palestine corporate governance related studies are still immature (Alia & AbuSarees, 2023), Palestinian listed firms generally do not comply with corporate governance best practices (Abdelkarim & Ijbara, 2010; Anastas, 2017),thus, it is expected that the security market will suffer from the agency problem in both kinds between agent-owners and between large stockholders and minority. As a result of this problem, firms exhibit a reduction over the assets utilization (a lower ratio of asset utilization indicates that the agency cost is high and there is an inefficient asset utilization by the management of firms (Dwaikat et al., 2023). The investors' confidence will be diminished in the presence of such conflict and due to ineffective monitoring of agency problem. The assets should be fairly utilized to enhance firms' both performance and market value to signal a quality of management to the outsiders, otherwise if the asset utilization is not well managed, this will reflect negatively on investors' sentiment and confidence (Prieto et al., 2019). It is to say that in Such a business environment inadvertently impacts the utilization of assets, financial performance, and market value. The role of asset utilization in reducing the agency problem and enhancing the market value through signaling mechanism is not substantiated in Middle East region and in the Palestinian market in specific.

The present study contributes to the existing literature regarding this topic by offering findings that may differ due to the difference in the Palestinian business environment, for example, due to the focus on firm's ownership in the hands of large shareholders in Palestine (Dwaikat & Queiri, 2014) which will reflect on asset utilization and even on the views of investors in the market, who could look at this process as expropriation of wealth in light of weak corporate governance and asymmetric information. These investors would depreciate the stock price and, consequently, the value of firms.

II. Literature Review

A corporation's main goal and function is to enhance and maximize stockholders' wealth by improving the firm's market value. Management of the firmis trusted to run the firm to gain earnings, ultimately leading to a rise in owners' wealth. The firm's managers simultaneously employ all capital sources (debt and equity)to finance the firm's operational activities(Shafique et al., 2021;Sharma, 2005). The operational activities of a firm utilize asset apportionment. Thus, a better use of firm assets raises sales, causing an increase in profits.The board of directors is responsible for making decisions regarding asset use by monitoring the firm's operational activities. Resolutions to make investments define the size of assets spent on the firm's operating activities, which employ assets to manage sales that generate earnings and enhance owners' wealth. Therefore, properly using a firm's assets is a significant key to obtaining the firm's primary goal (Dwaikat & Queiri, 2014; Dwaikat & Saadeh, 2021). Using assets indicates employing the assets appointed in such methods to manufacture products or services offered to customers to attain the firm's goals.For example, managing a firm's assets involves retaining supplies and current and fixed assets in the most efficient ways to generate anticipated earnings and raise the owners' wealth. A firm's financial position will reflect its failure and/or success in using its assets.

A. Underpinning Theory

This study is premised on the notion of Signalling Theory "ST", which implies that the market is inefficient due to the presence of asymmetrical information between the insiders and the outsiders. Investors' will respond positively and negatively to the information declared by the management, since such investors do not have access to the firms' information. Accordingly, share prices are effected in either way due to the phenomenon of information content (Markopoulou & Papadopoulos, 2009; Ross, 1977). This issue may be is more apparent in this market under the investigation, since there is a weak or immature corporate governance practices and the level of disclosure is not strongly imposed by the relevant authority (Alia & AbuSarees, 2023). Under such conditions, signaling a quality of management is an important strategy to gain investors' confidence. One way to do this is to manage the assets well by reflecting a high amount of assets utilization that signal to the market about the management proficiency in taking care of shareholders' wealth (Dwaikat et al., 2023). On the other hand, inefficient utilization of assets will reflect on the confidence of investors, and ultimately on the stock price. Hence, the financial performance through a proper assets utilization can have a direct link on the firms' market values as articulated by the Signalling Theory (Sri Mangesti, 2019). Furthermore, the announcement of good financial performance signifies that firm suffers less agency costs, and thus, it uses its asset to generate sales and earnings, beside that better financial performance also signals an effective management of the assets, which in return improves the size of sales (assets turnover ratio) and firms' profit (Kim et al., 2018).

B. The Impact of Financial Performance on Firm Market Value

It is well known that financial performance affects the market value of a company according to the signal theory (Sukesti et al., 2021), whereby disclosure of the financial reports to the public by the firm is seen as a good sign that might improve public confidence and interest in the firm. Also, there is shared faith among investors that firms with good financial performance have a preferable skyline in the future, which increases the price of stocks of the firm. Thus, many investors who want to buy shares become interested in excellent-performing firms. An increase in interest and desire to buy stocks will raise the demand for them and, consequently, increase the market stock price.

Such a scenario may be the opposite for poorly performing firms,as Sri Mangesti (2019) indicated that good financial performance positively impacts the firm's market value. In addition, higher profitable firms have enough internal resources that can be employed to fund the firm's growth opportunities. Such firms are more likely to pay dividends, eventually enhancing the owners' wealth. Furthermore, improving the firm's profitability signals the success of the firm's operating activities and applying better control. Also, it could be said that such a firm suffers fewer conflicts as an agency, which will lead to enhanced share value. In empirical studies, many former researchers ensured that financial performance positively affects firms' market value (Sri Mangesti, 2019; Sukesti et al., 2021). Based on the above discussion, the following hypothesis has been formulated:

H1: There is a positive impact of financial performance on the firm's market value.

C. The Effect of Asset Utilization on the Financial Performance of the Firm

Utilizing of firm's assets well enhances the firm's financial performance. Firms' assets are employed to fund sales from where firms gain their earnings, more effective management of assets improves the size of sales (assets turnover ratio) and enhances firms' earnings. Sri Mangesti (2019) states that the assets turnover ratio assesses the competence of managing firm assets. The ability of a firm to utilize its resource defines the increase in sales. Thus, firms with higher sales make higher earnings, leading to better financial performance (Gopal & Jitesh, 2012). Also, the keen utilization of a firm's assets reflects the competence and effectiveness of the firm's management in running its assets and reducing its costs, leading to higher earnings and maximizing owners' wealth. The firm's efficiency in running its assets (current and fixed assets) will define the return on investment (Kareem & Ani, 2014).

The assets utilization ratio is the ratio that gauges the effectiveness of a firm in operational activities. Also, this indicates how much a firm employs its assets to fund its sales to gain higher earnings. Hence, a firm more active in asset utilization will lead to increased sales and higher earnings. Furthermore, a company with a good asset utilization ratio is inclined to extend its current ability to meet potential demands in the market. Thus, one can argue that good asset utilization enhances firm financial performance. Based on the above discussion, the next hypothesize is formulated:

H2: Asset utilization positively impacts the firm's financial performance.

D. Mediation Role of Financial Performance between the Impact of Assets Utilization on the Firm Market Values

Financial performance is an essential standard by which related parties to a firm, such as investors and capital providers, take their economic resolutions and evaluate management and company performance. Thus, measuring financial performance is based on several resolutions involving share price, managers' compensation, risk of shares, and investment resolutions (Shafique et al., 2021). The size of performance measures managers' success in running the firm. Hence, performance is a significant part of the motivation of investors to invest in the firm, which also considers the amount of return that stockholders will gain (Herdinata, 2019). Firm performance is realized in different activities to attain the firm's objectives because every activity requires resources. Thus, the firm's performance is reflected in the employment of assets to achieve the firm's aims. A firm using its assets effectively will enhance its total revenue, which leads to performance improvement.

Former studies (Bukit et al., 2018; Shafique et al., 2021; Sri Mangesti, 2019) reported that asset utilization has a positive impact on the firm's performance. Also, a firm with a good asset utilization ratio tends to extend its current ability to meet the potential market demand. Meeting market demand will indirectly enhance firms' performance and market value since the investors will use the performance indicators to assess firm value and their investment. Company value can be described as the firm's capability to run its asset, and it is significant information to all stakeholders involved. Companies aim to raise their value by raising stockholders' wealth. The company's capability to generate and deliver value to all parties involved in the firm may impact investors' perceptions and corporate stock prices (Bukit et al., 2018). Hence, one can argue that a firm's asset utilization significantly impacts the firm's financial performance and indirectly impacts the firm's market value. Thus, firms' financial performance mediates the relation between the asset utilization and the firm market value and this was empirically supported by(Sri Mangesti, 2019). Based on the above discussion, the following hypothesis is formulated:

H3: The firm's asset utilization positively impacts financial performance and indirectly and positively affects market value.

III. Research method and sample

A. Data

This paper was conducted in Palestine on the non-financial firms listed on the Palestinian stock exchange market from 2010 to 2018 to examine the impact of the asset's utilization on market value and the mediating role of financial performance in Palestine. The study used purposive sampling that meets the following criteria: 1) non-financial firms of both industrial and services sectors opted, 2) data availability for selected firms in the sampling period was vital, which means companies with considerably missing data were not selected, 3) firms should not have been delisted from 2010 to 2018[1].The Palestine Exchange had 48 firms listed at the end of 2018. The 48 comprised seven banks, seven insurance companies, ten investment corporations, 13 industries, and 11 service providers. This means both target sectors have 24 firms, and after applying the above conditions, there was a final sample of 21 firms.

B. Research Model

Figure 1 shows the proposed research model, which was developed based on the theoretical discussion. The model shows that the independent variable is the asset utilization and the dependent variable is the firm's value. The mediating variable is the financial performance.

C. Measurement

The dependent variable was the closing price (CP), which is the value of the firm as measured by the closing market price of the stock at the end of the year, similar to former studies (Sri Mangesti, 2019). The choice of this proxy was driven by several rationale, the market stock price reflects investors' sentiment about the firm's performance induced by the supply-demand behavior. The price will change in line with investors' interests towards particular shares through the signaling mechanism. Furthermore, the choice of using the closing price in particular, as it is reflect the recent information about firms' value.

The independent variable in this study was asset utilization (ASutilization), measured as the total sales (total revenue) to total assets. The mediating factor was the financial performance (ROA), measured by

Figure 1. Proposed Research Model

1) The authors select this period to make a homogenous inference and conclusion as corporate governance code of conduct in Palestine was imposed effective from November 2009. Since then, listed firms started to comply and disclose information to some extent (Alia & AbuSarees, 2023).

net income divided by total assets. Moreover, this study used to control factors that have been found to affect the financial performance and market value in former studies(Herdinata, 2019; Sri Mangesti, 2019; Sukesti et al., 2021), such as growth chances (SG), measured as a sale growth in the current year minus former year divided by former year and debt ratio (leverage) measured by total debt divided by total assets and firm's size (logasset) measured by the natural logarithm of total assets. Table 1 illustrates a statistics summary of the factors included in this paper.

The descriptive statistics in Table 1 show that the average stock price for firms included in this study was $2.257, including firms with an average ROA performance of 0.032. Additionally, Palestinian firms used their assets at about 0.485. Furthermore, Palestinian firms employ debt capital of about 0.321, and their sales growth was negative by about -.058; the final average size of such firms in the logarithm of total assets is 16.832.

Table 1. Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
CP	2.257	2.146	.28	14.1
ROA	.032	.092	-.622	.261
SG	-.058	.817	-9.775	.862
ASutilization	.485	.405	.016	3.467
logasset	16.832	1.436	14	21
leverage	.321	.184	.017	.751

D. Statistical Analysis

The study used the structural equation model (SEM) to test the proposed hypotheses using stata software version 14. Using this method, the researchers can estimate complex models containing mediators or moderators. The suggested model used the following baseline equation:

$$ROA = \beta1\ ASutilization + \beta2\ SG + \beta3\ logasset + \beta4\ leverage + \varepsilon$$

$$CP = \beta5\ ASutilization + \beta6\ SG + \beta7\ logasset + \beta8\ leverage + \beta9\ ROA + \varepsilon$$

Before running the SEM, the researchers checked the heteroscedasticity via the Breusch-Pagan or Cook-Weisberg, Ho: Constant variance; Variables: fitted values of CP/ chi2 (1=1.55, Prob > chi2 = 0.2137). Based on this finding, no heteroscedasticity was present, and the variance inflation factor (VIF) was used to test multicollinearity. As appeared in Table 2, such an issue was non-exist, as all values of VIF were below five [13].

IV. Results and Discussion

The following table indicates the effect of asset utilization on the firm's market value mediating by the financial performance of Palestinian non-financial firms from 2010 to 2018. Table 3 presents the summary statistics of the structural equation model

Table 2. Multicollinearity

Variable	VIF	1/VIF
ROA	1.52	0.657045
leverage	1.49	0.670038
logasset	1.19	0.837256
ASutilization	1.17	0.854475
SG	1.04	0.960150
Mean VIF	1.28	

analysis findings.

Table 3 shows that the current model was a good fit, where the value of the Root Mean Square Error of Approximation (RMSEA) was 0.000; such value range should range from 0 to 1. The CFI was 1.000, which ensured a perfect fit of the model. The

Table 3. .Summary of Structural equation model for market value

Direct effects

CP <-	Coefficients	Standard Error	T-Statistics	P-value
ROA ***	10.02	1.72	5.83	0.000
ASutilization *	-0.645	0.341	-1.89	0.059
logasset	0.13	0.101	1.28	0.201
leverage *	-0.75	0.88	-0.85	0.394
SG *	0.001	0.165	0.01	0.994
ROA <-				
ASutilization ***	0.058	0.015	3.78	0.000
logasset ***	0.021	0.004	4.83	0.000
leverage ***	-0.264	0.035	-7.47	0.000
SG **	0.016	0.008	2.06	0.039

Indirect effects

CP <-	Coefficients	Standard Error	T-Statistics	P-value
ASutilization ***	0.579	0.183	3.17	0.002
logasset ***	0.214	0.058	3.72	0.000
leverage ***	-2.644	0.576	-4.59	0.000
SG ***	0.158	0.081	1.94	0.052

Total effects

CP <-	Coefficients	Standard Error	T-Statistics	P-value
ROA ***	10.02	1.72	5.83	0.000
ASutilization	-0.066	0.361	-0.18	0.855
logasset ***	0.344	0.104	3.3	0.001
leverage ***	-3.395	0.833	-4.08	0.000
SG	0.159	0.18	0.88	0.377
ROA <-				
ASutilization ***	0.058	0.015	3.78	0.000
logasset ***	0.021	0.004	4.83	0.000
leverage ***	-0.264	0.035	-7.47	0.000
SG ***	0.016	0.008	2.06	0.039
Likelihood ratio	chi2_bs(9) =20.309			p > chi2=0.000
CD:Coefficient of determination	0.374			
SRMR: Standardized root mean squared residual	0.000			
RMSEA: Root mean squared error of approximation	0.000			
CFI: Comparative fit index	1.000			
TLI:Tucker-Lewis index	1.000			

Tucker-Lewis index (TLI) was 1.00; the Chi-Square Test of Model Fit for the baseline model was 120.309. The degree of freedom was nine, and the P-Value was 0.0000. The SRMR was 0.000, and the coefficient of determination was similar to the R-square in the linear regression(Cain, 2021). These findings indicate the suggested model's acceptability.

Furthermore, Table 3 illustrates that financial performance has a direct significant positive impact on the market value of Palestinian firms. Thus, H1 is proven. In contrast, asset utilization has a negative and significant direct effect on the market value of Palestinian firms. Regarding the control variables results, the growth opportunities and firm size were found to have an insignificant positive direct impact on the market value of Palestinian firms. In contrast, the debt ratio was found to have a negligible negative effect on Palestinian firms' market value. On the other hand, Table 3 shows that asset utilization has a direct significant positive impact on the financial performance of Palestinian firms. Furthermore, controlling factors, growth opportunities, and firm size were found to have a direct significant positive impact on the financial performance of Palestinian firms, while debt ratio has a direct significant negative impact on the financial performance of Palestinian firms. H2 is hence proven.

Regarding the indirect effect of considered factors, Table 3 shows that asset utilization has a positive and significant indirect impact on the market value of Palestinian firms. Therefore, H3 is proven. Also, controlling factors, growth chances, and firm size were found to significantly impact the market value of Palestinian firms, while the debt ratio harms the market value of Palestinian firms.

The above findings could be seen in Palestine's business environment, characterized by a high concentration of ownership, family ownership, and weak corporate governance. Thus, investors will view the usage of assets as expropriating their wealth by large shareholders, for example, through tunneling transactions (Herdinata, 2019). Still, when well use of assets enhances the finances of firms, i.e., the higher ability to increase profit, its impact becomes positive in the eyes of investors, which will reflect on the stock prices in the market. In other words, asset utilization affects the market value indirectly through its impact on financial performance. The financial performance, mediates the relationship between asset utilization effect and market value. Such findings were also reported by (Sri Mangesti, 2019). Also, higher profitable firms and higher market value will entice investors to invest as they hope to receive a higher return on their investment(Sukesti et al., 2021). The findings indicate that firms that improve their asset utilization during operational activities will advance their financial performance. Similar results were reported in (Shafique et al., 2021), meaning that a firm that efficiently and successfully runs operational activities will convert using assets to enhance sales size and increase profits.

The size of the firms is a significant variable in determining their profits, as large companies are more efficient in using their assets in production than small ones since they use the scale of the economy, giving them cost advantages. This will enhance financial performance, improving firms' market value. A firm with growth opportunities has better financial performance, and high financial performance enhances the firm's market value as this permits firms to have better ability in higher earnings, which participates in a higher stock value(Sri Mangesti, 2019). Also, this aligns with the permanent income hypothesis prediction, which states that anticipation toward future income defines the number of asset utilization. Thus, the target income can be accomplished by making more investments that produce higher income in the future(FRIEDMAN, 1957). Finally, findings showed that an increasing debt ratio reduces financial performance and market value. In contrast, a firm with a higher debt ratio counters a higher risk of loss and a higher anticipated rate of return by investors. Generally, investors are more interested in lower-risk shares with higher returns (Sukesti et al., 2021). To sum up, if a higher level of profit does not accompany a higher debt ratio, share prices indirectly will reduce, particularly in a higher agency cost environment such as Palestine, where the level of management monitoring may not be strong, even by capital providers too. Also, loans may be used for management's interests and not found to be profitable projects.

V. Conclusion

This paper aims to examine the impact of asset utilization on the market value of Palestinian firms in non-financial sectors and to explore the mediating role of financial performance between asset utilization and the market value of firms. Using a structural equation model analysis, findings showed that asset utilization enhances firms' market value by improving the firm's financial performance. Thus, in this case, financial performance mediates the impact of asset utilization on the firm's market value. However, asset utilization negatively impacts firms' market value, which is in line with the view of the agency theory. Investors may be concerned about using assets for managers' interests rather than shareholders' or waste assets investing in undervalued projects. The analysis also showed, in terms of control factors results, that growth opportunities have a positive and significant impact on the firm's financial performance and market value. This finding is consistent with the argument of the permanent income hypothesis, which points out that anticipation toward future income defines the number of utilized assets. Therefore, the target income can be achieved by making more investments now that produce higher income in the future. The firm's size also has a positive and significant impact on its financial performance and market value, which aligns with the argument of economies of scale, where big firms are more experienced and efficient in using their assets in production than small companies. Economies of scale give them cost advantages, i.e., cost savings and higher production levels, which enhance financial performance and improve market stock prices. At the same time, debt policy negatively and significantly impacts the firm's financial performance and market value. Loans not used in profitable investments will reduce financial performance and, in turn, the firm's market value in light of weak corporate governance and high concentration ownership, which means agency costs are high due to inadequate monitoring of management actions.

VI. Implication and Future Direction

The findings of this study are in line with prediction of Agency Theory, where the results found that firm keeps and improves its financial performance through a proper asset utilization that mitigate a potential problem between management and shareholders. Furthermore, the findings of this study is line with Singalling theory predication on the relationship between investors' confidence to reflect on stock price positively when there is a reduction of the agency problem and prospect of future earnings (Sri Mangesti, 2019; Sukesti et al., 2021).

The findings of this study provides several implications to several parties, such as management and shareholders. For example, management should consider the asset utilization as a strategy to reduce the agency problem as well as to signal the quality of management. Financial performance will reduce market value through reduced share prices if it is improved. Also, management should do its role in overseeing the managerial actions, in order to reduce the agency costs and ensures that firm's assets are effectively utilized and these assets should be invested in projects generate profits and are not wasted, thus, not minimizing share prices due to the misbehavior of managers, as this will lead to reducing shareholder's wealth at the end.

This study was conducted using a sample of non-financial Palestinian sectors. Thus, future studies may examine factors included in this study on Palestinian financial industries to generalize findings for the Palestinian market. Additionally, this study used share prices to measure the market value of firms and return on assets as a measure of financial performance. Thus, future studies may consider other criteria, such as price to book value (to gauge whether a stock is valued correctly, i.e., assessment investing). Future papers may use other measurements of financial performance, such as return on equity or return on investment. This will give comprehensive results about the relationship between asset utilization, financial performance, and the market value of firms.

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