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Article

Do Corporate Governance Mechanisms Matter to the Reputation of Financial Firms? Evidence of Emerging Markets

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Do Corporate Governance Mechanisms Matter to the Reputation of Financial Firms? Evidence of Emerging Markets

Ibrahim O.A Eriqat¹, Muhammad Tahir² and Abdul Hadi Zulkafli^{1*}

Abstract: The primary aim of this study is to provide a comprehensive measure of corporate reputation and examine the impact of corporate governance on the reputation of listed financial firms in the countries of MENA region. Using a sample of 96 financial companies listed on the stock exchanges of four countries in the MENA region: Jordan, Palestine, Qatar, and Kuwait over a period of five years (2016–2020), the study developed a quantitative index of a multidimensional corporate reputation through the use of principal component analysis (PCA) techniques. The study applies the dynamic panel system Generalized Method of Moments (GMM) to estimate the dynamic corporate reputation model. The study finds that audit committee independence improves corporate reputation. Furthermore, findings show that ownership concentration negatively affects corporate reputation. This study contributes to filling the research gap on corporate reputation within the MENA region. Furthermore, the study findings provide interesting insights for policy makers, managers, and other stakeholders about what can determine a company's reputation in the case of developing countries.

Subjects: Corporate Finance; Business, Management and Accounting; Financial Accounting; Corporate Governance

Keywords: MENA; corporate governance; corporate reputation; audit committee independence; ownership concentration

JEL CLASSIFICATION: N25; G3; L14; M42; G32

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Ibrahim O.A Eriqat is a PhD student at the Finance and Islamic Finance Section, School of Management, Universiti Sains Malaysia, under the supervision of Dr. Abdul Hadi Zulkafli. This research comes to fulfill his PhD requirements. His PhD research covers the areas of corporate reputation, corporate social responsibility, and corporate governance.

1. Introduction

Nowadays, economic globalization and increasing competition require companies to have a strategic approach to promote competitiveness and survival. Managers use corporate reputation as a strategy to create a sustainable competitive advantage for a company. Corporate reputation is responsible for attracting customers, employees, and investors; establishing a good relationship with the community; enhancing acceptance; and improving stakeholder perceptions about the organization. Researchers assumed that a positive reputation is essential for a corporate brand and helps it achieve superior financial performance (Batrancea et al., 2022).

Corporate reputation is the sum of the stakeholders' perceptions about the company's ability to meet their interests. In this context, reputation emerges as a result of stakeholders' perceptions and therefore should be evaluated based on several dimensions that reflect the views of those stakeholders (Batrancea et al., 2022).

Scholars in this field have developed several models that rank a company's reputation (e.g., world's most admired companies, Reprack, etc.) based on a set of dimensions that are believed to represent the company's reputation, such as leadership, quality of products and services, financial performance, employee behavior, the firm's visibility in the financial markets, etc., which are typically limited to a set of companies in developed nations (Pérez-Cornejo et al., 2019). In the context of developing countries, with the lack of databases for ranking corporate reputation, managing and measuring corporate reputation is more challenging. Thereby, studies of corporate reputation in developing countries have received less attention than in developed countries, particularly in the countries of the MENA region.

Although academics generally agree on the factors that may contribute to the formation of a company's reputation, there is not yet consensus on a standard approach to measuring the bottom line of corporate reputation (Baruah & Panda, 2020). Despite the fact that corporate reputation rating models address the multidimensionality of corporate reputation, they are often criticized because such evaluations of corporate reputation are based solely on surveys of CEOs or analysts, who are not necessarily representative of all stakeholder groups (Ghuslan et al., 2021).

However, besides the importance of measuring corporate reputation, exploring factors that may affect or enhance corporate reputation is of great importance in maintaining and managing reputation. Previous research has linked the good practices of corporate governance and corporate reputation, as well as considered corporate governance as an antecedent for corporate reputation (Pérez-Cornejo et al., 2019). Corporate governance frameworks in the MENA context have undergone critical development in the past decade, with most MENA countries promulgating codes of corporate governance principles.

Nevertheless, the region still faces many challenges that stand in the way of entrenching corporate governance principles. The OECD (2019a) has identified three main challenges to corporate governance in the MENA region, including concentrated ownership by families and the state, the need for a more transparent business culture, and the limited participation of women in leadership. In addition to these challenges, Farah et al. (2021) claimed that not all organizations appear to be committed to applying MENA corporate governance codes. Interestingly, most of the companies listed on the MENA stock exchanges are relatively highly concentrated in terms of sectorial composition, with the banking sector accounting for half of MENA's market capitalization (Amico, 2014). Therefore, financial institutions, especially banks, are supposed to lead corporate governance development in the context of the MENA region.

Using information from 96 financial firms from four countries in the MENA region, we develop, via principal component analysis, the corporate reputation index as a mixture of six indicators grouped in four dimensions: financial reputation, brand-customer awareness, workplace-internal reputation, and market reputation. The next area of interest in this study is to investigate the

impact of corporate governance practices on corporate reputation. The main findings of this study show that audit committee independence has a positive impact on corporate reputation. Moreover, ownership concentration shows a negative impact on corporate reputation.

The present study contributes to previous research in several ways. First, this study develops a quantitative index for corporate reputation that considers different dimensions of corporate reputation. Such an index adds value to previous reputation studies. Second, this study is concerned with the current issues and constraints related to the implementation of corporate governance in the MENA region. In light of this, the study addresses a variety of corporate governance mechanisms, including board structure, ownership structure, audit committee structure, and transparency and disclosure, which take these issues into account. Third, this study contributes to filling the empirical research gap, as very few studies have addressed the relationship between corporate governance and corporate reputation in the case of developing countries, particularly in MENA countries. Finally, the study findings can help policymakers, managers, and other stakeholders improve corporate reputation through good corporate governance practices.

The remainder of this paper is organized as follows: In the second section, we present the theoretical background and hypotheses. The third section presents the study methodology. The fourth part focuses on the research results and discussion. The paper closes with our main conclusions, implications, limitations, and future lines of research.

2. Theoretical Background and Hypotheses Development

2.1. Theoretical Background

Agency theory was founded on the principal-agent relationship (Fama & Jensen, 1983). Agency theory demonstrates an agency relationship in which one party (the principals) delegated a task to another (the agents), who carried it out. Separation of management and owners may lead to agency problems, which mainly arise from the assumption of a principal-agent conflict of interest while the principal (shareholders) is unable to verify the agent's (managers) behavior or it is expensive to do so (Mitnick, 2015). To reduce agency problems, corporate governance (CG) standards are used as a management mechanism that governs the relationship between directors and shareholders.

2.2. Corporate Governance Mechanisms and Corporate Reputation

Researchers described corporate governance in different ways. According to Cadbury (1992), corporate governance (CG) is defined as the system by which companies are directed and controlled. In this definition, Cadbury argued that corporate governance practices are the responsibility of the firm's directors, while the core interest of corporate governance is to manage the relationship with the firm's owners (shareholders). Researchers point out that good corporate governance practices can fulfill stakeholder interests. For example, corporate governance mechanisms can reduce potentially opportunistic managerial behavior, protect investors, increase company confidence and credibility, and enhance the internal control system (Ghuslan et al., 2021). Corporate reputation (CR) is defined as the general level of favorability across stakeholders (Lange et al., 2011). Since corporate reputation is the sum of the perceptions of various stakeholders, and the good practices of corporate governance are expected to positively influence these perceptions, we can say that the good practices of corporate governance are positively associated with corporate reputation.

In this respect, several empirical studies provide evidence on the relationship between several aspects of corporate governance and corporate reputation in different contexts. For example, the relationship between corporate governance and corporate reputation among 141 Spanish companies has been studied by Navarro-García et al. (2022), who used female directors as a governance mechanism and corporate reputation provided by MERCO reputational rating. Their results show that the proportion of female directors improves corporate reputation. Another study by Adigüzel

et al. (2018) examines the relationship between CEO narcissism, corporate reputation, and financial performance in the case of US firms by using the Fortune America's Most Admired Companies list. The results show that CEO narcissism weakens the positive relationship between corporate reputation and firm performance. A study by Ghuslan et al. (2021) of Malaysian firms revealed that corporate governance effectiveness influences corporate reputation. They used PCA to obtain an entire evaluation of the company's reputation based on several dimensions of corporate reputation. Likewise, Kaur and Singh (2018a) study examines the impact of corporate governance mechanisms on the reputation of 403 Indian firms. They used the market-to-book value ratio as a measure of corporate reputation. The study found that intuitional ownership and board size positively influence corporate reputation.

To the best of the authors' knowledge, there is a lack of studies that consider the relationship between corporate governance mechanisms and corporate reputation in the context of MENA nations. Nevertheless, few studies have been found that take corporate reputation into account in other areas. For instance, a study conducted by Sakkaf et al. (2022) examines the relationship between corporate social responsibility, company reputation, and corporate performance in UAE using questionnaires as a tool for measuring company reputation.

From the above discussion, it can be seen that corporate governance mechanisms have an impact on corporate reputation in the case of both developed and developing countries. Furthermore, in the case of developing nations, researchers use different approaches to measure corporate reputation due to the lack of databases that address corporate reputation in these countries.

2.2.1. Board Structure

In general, different corporate governance codes highlighted the important role of the board of directors in developing good governance (Fama & Jensen, 1983). Consequently, many previous studies investigated the influences of the board of directors' characteristics, including female participation in the board of directors and CEO duality. Female participation in the board of directors can influence the perceptions of outside agents in that the board operates more effectively. This is consistent with the idea that the company is a good citizen, non-discriminatory, and committed to the rules of diversity (Brammer et al., 2009). Previous empirical research showed that female participation in senior management improves a company's reputation (Navarro-García et al., 2022).

H1a: There is a positive relationship between female directors and corporate reputation.

Researchers also discussed the critical role of the CEO's functions. CEO duality takes place when one person holds both the CEO and chairman positions at the same time. Corporate governance instructions assumed that when the CEO has both of these functions, this leads to a concentration of power and rising managerial dominance (Muhammad et al., 2019). Empirical research found a negative relationship between CEO duality and CR (García-Meca & Palacio, 2018; Navarro-García et al., 2020).

H1b: There is a negative relationship between CEO duality and corporate reputation.

2.2.2. Audit Committee Structure

The audit committee is another important aspect of corporate governance. The size of the audit committee is the first element in its composition. Audit committee size enhances the communication network between internal auditors and external auditors and assists the board of directors in its activities such as nominating auditors and reviewing audit scope and audit findings (Al-Matari

et al., 2014). It is also assumed that the larger size of the audit committee allows for the inclusion of a variety of audit members with different financial and accounting expertise, thus enhancing audit quality (Mardjono & Chen, 2020).

H2a: There is a positive relationship between audit committee size and corporate reputation.

The independence of the audit committee is another important component of the audit committee. Previous research has shown that having independent directors on an audit committee improves the quality of financial information and reduces agency problems (Khudhair et al., 2019). Empirical research revealed that independent audit committee members have a positive relationship with company reputation (Pérez-Cornejo et al., 2019).

H2b: There is a positive relationship between audit committee independence and corporate reputation

2.2.3. Ownership Structure

Ownership structure, i.e., ownership concentration and insider ownership, fundamentally impact the manager-owner relationship. Ownership concentration can have different consequences. First, in companies with dispersed equity ownership, stakeholders expect shareholders to have low incentives and less power to monitor managerial behavior. As a result, the expropriation of property is expected by the managers. Further research assumed that large shareholding also affected the rights of minority owners and, therefore, could erode corporate reputation (Jatiningrum et al., 2023). From this point of view, previous empirical studies have also found a negative association between ownership concentration and company reputation (Bautista et al., 2010; Orozco et al., 2018). In the case of the MENA region, the concentration of ownership in the form of the family and the state has been identified as one of the major obstacles to the development of corporate governance in the region, as they are more likely to conceal or manipulate available data. (OECD, 2019b), which in turn influence the development of the stock market and investment decisions.

H3a: There is a negative relationship between ownership concentration and corporate reputation.

Insider ownership refers to the shares held by executive directors. Management ownership may create two managerial behaviors. First, management-insider ownership can reduce agency problems (owner and management conflicts) due to the alignment of interests between insider ownership and the firm's management (Ali et al., 2022). This generates the perception of reducing agency costs and thus enhancing the firm's reputation. According to these arguments, researchers hypothesized a positive relationship between insider ownership and corporate reputation (Bautista et al., 2010).

H3a: There is a positive relationship between insider ownership and corporate reputation.

2.2.4. Transparency and Disclosure

Finally, transparency and disclosure (TD) are important aspects of corporate governance, and they contribute to building a good reputation for the company and helping build a long-term competitive advantage (Kim & Kim, 2017). On the contrary, companies that do not meet the standard of transparency and disclosure increase the risk of damaging management credibility and, in some cases, losing shareholder confidence, which leads to damage to the company's reputation (Madhani, 2009). In this respect, empirical research found a positive association between the

firm's overall disclosure quality and corporate reputation (Bravo, 2016; Gabbioneta et al., 2007; Landgraf & Riahi-Belkaoui, 2003).

H4: There is a positive relationship between disclosure and transparency in financial information and corporate reputation.

3. Research Design

3.1. Data

The present study relied on secondary data collected from various sources. Data on corporate reputation variables, corporate governance variables, and the firm-level control variables were collected manually from the firms' annual reports (480 observations for each). The total number of observations collected for insider ownership and ownership concentration was 384 and 395, respectively, which indicates that 80% and 82% of the total observations were collected. To overcome this issue, we carried forward the last observation and substitution by the mean, which are recommended techniques for data imputation (Bragoli et al., 2016; Jones, 2014). Finally, GDP and inflation rate data were collected from the World Bank database.

3.2. Sample Selection

This study was conducted on a sample of 100 financial institutions listed on the stock exchanges of four countries in the MENA region over the period 2016–2020, namely Palestine, Jordan, Qatar, and Kuwait. The final sample after excluding companies with large amounts of missing data was 96 financial companies, from the banking, insurance, and other financial services industries (See [Table A1: Sample Characteristics](#) and [Table A1 footnotes](#) for more details.) The countries were selected based on the different levels of economic potential in the MENA region: the oil-exporting Gulf States (e.g., Qatar and Kuwait) and the non-oil-exporting countries (e.g., Jordan and Palestine; Ghosh, 2018).

3.3. Variables

3.3.1. Dependent Variable

The dependent variable of this study is the company's reputation, measured by using six indicators that were categorized into four main dimensions of company reputation: financial reputation, customer-brand awareness, internal-workplace reputation, and market reputation. First, financial reputation is assessed through the use of two financial performance ratios; return on assets (ROA) and return on equity (ROE). Financial performance is one of the key dimensions that make up a company's reputation. For example, Batrancea et al. (2022) study relied only on financial indicators to rank corporate reputation. Second, brand-customer awareness is measured by using the market share ratio. Previous literature that has used market share as a measure of company's reputation explains that a high market share indicates that the company's reputation is good enough to retain customers (Navarro-García et al., 2020). Third, in line with Baruah and Panda (2020), the present study use the human capital efficiency (HCE) ratio as a proxy for workplace-internal reputation. This is due to the perception among many stakeholders that a company with a good reputation is better able to attract and retain talented employees.

Finally, the study used market to book value and the price to earnings ratio to measure market reputation. Researchers explained the gap between the market value and book value of the company's assets in the fact that investors are willing to pay more for the company's assets because of its reputation, so the value of the company's reputation will equal this variation (Blajer-Gołębiewska & Arkadiusz, 2016). On the other hand, researchers who have used the P/E ratio as a measure of a company's reputation in the financial market argue that the P/E ratio provides a prediction to investors about the growth and security of their money (Kaur & Singh, 2018b). (See

Table A2: Corporate Reputation Indicators.) However, using these indicators, we create an overall measure for corporate reputation through principal component analysis (PCA). The purpose behind this approach is to reduce the dimensionality of a variable set into a smaller number of variables called factors.

3.3.2. Independent Variables

The independent variables in our study are the corporate governance mechanisms represented by the board of directors, audit committee, ownership structure, and transparency and disclosure. Board structure includes two variables: gender, measured as the proportion of female directors (Navarro-García et al., 2022), and CEO duality, a variable that takes the value of 1 if the same person holds the position of CEO and chairman, and 0 if otherwise (García-Meca & Palacio, 2018). Audit committee variables are audit committee size, measured as the number of members serving on the audit committee (Mardjono & Chen, 2020), and the independence of the audit committee, measured as the proportion of independent directors on the audit committee (Pérez-Cornejo et al., 2019). Regarding the ownership structure, the current study examined ownership concentration as the number of shares owned by the three largest shareholders to the total number of outstanding shares of the company (Bautista et al., 2010) and internal ownership, which is the proportion of shares owned by the company directors (Jain et al., 2020). As to transparency and disclosure, the current study developed an unweighted index to measure the quality of transparency and disclosure using a checklist of 13 items selected based on previous studies that examined TD in the MENA region (Al-ahdal et al., 2020; Mansour et al., 2020) and based on governance requirements. The item was scored 1 if the company matches the item and 0 if it is not, so the company's maximum score would be 13 (i.e., the company meets all examined TD items, which are 13). The index was calculated as the ratio of the actual scores awarded to the total number of checklist items (see *Table A3: TD items Checklist*).

3.3.3. Control Variables

The current study used seven control variables: lagged corporate reputation, firm size, leverage, GDP, inflation rate, industry, and year. We used lagged corporate reputation because the past corporate reputation is expected to influence the current corporate reputation (Pérez-Cornejo, de Quevedo-Puente, and Delgado-García 2020, Rothenhoefer 2019). The lagged corporate reputation was measured as corporate reputation at time $t-1$. We included firm size, as large companies are more popular with different audiences (Fombrun & Van Riel, 2004) and are expected to be more visible in the markets and have more resources that enable them to enjoy a better reputation compared to smaller companies (García et al., 2013). Firm size was measured as the logarithm of the firm's total assets. Previous empirical research has also shown the effect of leverage on corporate reputation (Dell'Atti et al., 2017; Pérez-Cornejo et al., 2019). The high reliance of a company on loan financing may make the company more vulnerable to financial risks and thus have a lower reputation (Adenugba et al., 2016). Leverage was measured as the firm's total debt to total equity. The present study used the annual real GDP rate and the annual inflation-consumer prices rate to control for country heterogeneity. Finally, we controlled for industry and year by using dummies.

3.4. Empirical Model

Since corporate reputation slowly accumulates over time, i.e. the past values of corporate reputation may determine the present values (Bautista et al., 2010; Pérez-Cornejo et al., 2020; Pérez-Cornejo et al., 2019; Rothenhoefer, 2019), the present study, therefore, uses a dynamic corporate reputation estimation model. The dynamic corporate reputation model employs the lagged corporate reputation as an explanatory variable. This procedure generates an endogeneity problem that arises due to the correlation between the lagged corporate reputation and the error term of the equation model (Arellano & Bond, 1991). Instrumental variable (IV) is a technique used to solve endogeneity problems. Regardless, there is no standard method for selecting instrumental variables; Roodman (2009) demonstrated that good instruments are available in the existing

dataset. Lagged values of the dependent variable are therefore used as instruments to control this endogenous relationship.

The basic assumption of the POLS is that all of the explanatory variables in the regression model are independent of the error term, i.e., exogenous. Therefore, if, for whatever reason, an explanatory variable is correlated with the model error term, then the explanatory variable is called an endogenous explanatory variable, and we can say that the model suffers from endogeneity, hence the results of the POLS are biased and inconsistent. Moreover, POLS assumes that all residuals are drawn from a population that has a constant variance (homoscedasticity). Once there is individual heterogeneity (i.e., heteroskedasticity), which is almost always the case since each cross-sectional unit (i.e., company) by nature has some differences from the others, the POLS works ineffectively.

In this regard, this study applies a two-step system GMM estimation model that provides several advantages. First, GMM estimators allow controlling for potential endogeneity of the independent variables and avoiding unobserved heterogeneity arising from the individual characteristics of each company. Second, eliminating the risk of obtaining biased results, while with the existence of heterogeneity and endogeneity problems, the results of OLS with and without a fixed effect cannot be reliable. Third, the GMM estimate performs the necessary diagnostic tests: the Arellano–Bond test for the first-order and second-order serial correlation and the Hansen test of over-identifying restrictions to show the validity of the instruments used. Finally, the system GMM generates more efficiency by allowing the use of additional moments’ conditions than other GMM estimators do (Arellano & Bond, 1991; Blundell & Bond, 1998; Roodman, 2009). To achieve the study objectives, we employed the following model:

$$CR_{it} = \beta_0 + \beta_1 CR_{it-1} + \beta_2 CEO_{it} + \beta_3 G_{it} + \beta_4 AC_{it} + \beta_5 AI_{it} + \beta_6 OC_{it} + \beta_7 IO_{it} + \beta_8 TD_{it} + \beta_9 FS_{it} + \beta_{10} FL_{it} + \beta_{11} GDP_{it}$$

Where

CR_{it} is a company reputation index obtained from the principal components analysis (PCA) in the company i at time t . CR_{it-1} is the lagged corporate reputation index in the company i at time $t-1$. CEO_{it} is the CEO duality in the company i at time t . G_{it} represents the gender diversity in the company i at time t . AC_{it} is the audit committee size in the company i at time t . AI_{it} represents the independent directors in the audit committee in the company i at time t . OC_{it} denotes the ownership concentration in the company i at time t . IO_{it} is the insider ownership in the company i at time t . TD_{it} represents the transparency and disclosure index in the company i at time t . FS_{it} is the firm size in the company i at time t . FL_{it} is the firm financial leverage in the company i at time t . GDP_{it} denotes real gross domestic product in the country i at time t . In_{it} denotes the inflation-consumer prices rate in the country i at time t . $Year_{it}$ is the year dummies. $Industry_{it}$ represents industry dummies. θ_0 is the intercept of the equation, and $\theta_1 + \dots + \theta_{14}$ are the coefficients of the independent variables. μ_i is the unobserved heterogeneity; finally, ϵ_i is the error term.

Table 1. KMO measure of sampling adequacy and Bartlett’s test of Sphericity

Group one (Jordan & Palestine)		Group two (Qatar & Kuwait)			
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.616	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.664	
Bartlett’s Test of Sphericity	Approx. Chi-Square	636.236	Bartlett’s Test of Sphericity	Approx. Chi-Square	568.179
	df	15		df	15
	Sig.	0.000		Sig.	0.000

4. Results and Discussion

4.1. Principal Components Analysis (PCA) Results

For a factor analysis (PCA) to produce meaningful results, the set of variables should have a significant level of correlation. Thus, in order to minimize the number of outliers and control for country heterogeneity, the analyzed data was stratified into two groups of countries that shared the same economic conditions. Table 1 shows the results of Bartlett's Test of Sphericity and Kaiser–Meyer–Olkin (KMO). The results of Bartlett's Test of Sphericity was significant ($p < 0.05$) for the two groups of the analysis, indicating that the variables have a significant correlation. The KMO test for sampling adequacy ranges from 0 to 1, with greater than 0.5 generally indicating that the factor analysis is appropriate (Thai-Ha et al., 2019). The results were 0.616 and 0.664 for the two groups, respectively.

The second step is extracting the factors. The standard criteria are to choose factors that: (i) have eigenvalues larger than one; (ii) individually contribute to explain at least 10 percent of the overall variance; and (iii) jointly can explain 60 percent of the overall variance (OECD, 2008). On this basis, Table 2 shows that the first three factors are retained for group one, which have eigenvalues greater than one (2.53, 1.4, and 1.03) and explain more than 10 percent of the variation (42.15, 23.32, and 17.3 percent, respectively), and finally the three factors jointly explain 82.27% of the variation. Using the same extraction criteria, the first two factors are retained for the second group.

Table 3 shows the results of factor loading using the varimax rotation method, which enhances orthogonal factor loading. The loading results represent correlation coefficients for each variable with the factor, thus it normally ranges from -1 to 1 , while an absolute value of 0.5 and above is considered significant (Thai-Ha et al., 2019).

Finally, the corporate reputation index is calculated based on factors scores, and the variance explained by the retained factors. Each factor reveals the set of variables that have the highest correlation with it. Since the retained factors demonstrate different levels of variance, the importance of each factor in measuring the overall corporate reputation index varies. Using the proportion of the variance explained by the factor to the total variance explained by all the retained factors as the weights of the factors, we calculated a non-standardized index (NSI) of corporate reputation for each company, as follows:

Group one equation: NSI of CR = (42.15/82.27) (Factor 1 scores) + (23.32/82.27) (Factor 2 scores) + (17.3/82.27) (Factor 3 scores).

Group two equation: NSI of CR = (40.85/67.75) (Factor 1 scores) + (26.9/67.75) (Factor 2 scores).

The NSI was standardized using a min-max approach, which converts the NSI into values from 0 to 1, making it easier to interpret. It is worth noting that the same strategy was used to create an index in the previous research (Antony & Visweswara Rao, 2007; Krishnan, 2010; Sekhar et al., 1991).

4.2. Descriptive Statistics and Correlation Matrix

Table 4 shows the descriptive statistics and the correlation matrix of the study's explanatory variables. The descriptive statistics can provide an updated assessment of the corporate governance practices in the MENA region. While the findings of the descriptive statistics confirm that some of the discussed obstacles remain, Table 4 shows that the mean value and the standard deviation of the proportion of the female directors to the total number of directors (Gender) are 0.05 and 0.086, respectively, which indicate very low female participation in the top management.

Table 2. Eigenvalues for factors included in CR index

Group one (Jordan & Palestine)				Group two (Qatar & Kuwait)			
Component	Total	% of Variance	Cumulative %	Component	Total	% of Variance	Cumulative %
1	2.529	42.157	42.157	1	2.451	40.854	40.854
2	1.400	23.326	65.483	2	1.614	26.898	67.752
3	1.037	17.291	82.774	3	.834	13.904	81.656
4	.605	10.081	92.855	4	.603	10.045	91.701
5	.314	5.226	98.080	5	.389	6.478	98.179
6	.115	1.920	100.000	6	.109	1.821	100.000

Note: Extraction Method- Principal Component Analysis, using a technique available on SPSS to extract components with eigenvalues greater than 1. Components with bold numbers are those that are retained.

Table 3. Rotated factor loading for variables included in CR index

Variable	Group One (Jordan & Palestine)			Group Two (Qatar & Kuwait)		
	Component 1	Component 2	Component3	Variable	Component 1	Component 2
ROE	.960	.044	-.078	ROA	.949	-.015
ROA	.884	.196	.034	ROE	.925	.121
PE	.884	.063	.105	HCE	.820	.181
MB	-.004	-.858	.121	PE	.089	.783
HCE	.211	.787	.166	MS	.013	.772
MS	.023	.018	.988	MB	-.119	-.598

Note: Extraction Method: Principal Component Analysis—varimax rotation method. Bold numbers indicate significant variable correlation “loading”.

Table 4. Descriptive Statistics and correlation matrix

Variables	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) G	.05	.086	1.000										
(2) CEO	.042	.2	0.032	1.000									
(3) AC	3.383	.837	0.136	-0.034	1.000								
(4) AI	.586	.314	-0.035	0.069	-0.143	1.000							
(5) IO	.287	.253	-0.023	0.002	0.044	0.000	1.000						
(6) OC	.442	.249	0.020	-0.038	0.143	0.205	0.169	1.000					
(7) TD	.633	.279	0.236	0.103	0.208	0.269	0.125	0.411	1.000				
(8) FS	3.097	3.272	-0.003	-0.113	0.171	-0.114	-0.140	-0.094	0.027	1.000			
(9) FL	8.847	1.017	0.189	-0.005	0.202	0.157	-0.020	0.146	0.339	0.576	1.000		
(10) GDP	10.811	.337	-0.188	-0.178	-0.063	-0.303	-0.196	-0.370	-0.718	0.365	-0.166	1.000	
(11) In	1.235	1.746	-0.006	-0.060	0.025	-0.105	0.015	-0.034	-0.024	-0.015	-0.023	0.050	1.000

Note: G denotes gender diversity. CEO indicates to CEO duality. AC is audit committee size. AI denotes audit committee independence. IO reflects insider ownership. OC represents ownership concentration. TD represents transparency and disclosure index. FL represents financial leverage. FS is a firm size. GDP is the country annual real GDP. In is the country annual inflation-consumer prices rate. All variables in the table are at their original values, except for GDP in logarithms.

The mean value and standard deviation of the CEO are, respectively, 0.042 and 0.2. A low mean value of the CEO indicates that the sampled companies show a high commitment to corporate governance principles regarding the separation of CEO and chairman functions. Audit committee size has a mean value of 3.383 and a standard deviation of 0.837: this implies that the sampled companies are subjected to the MENA codes of corporate governance with respect to audit committee size (usually 3 members). Furthermore, it shows an acceptable level of commitment towards the independence of the audit committee, where the mean value and the standard deviation of the audit committee independence are 0.586 and 0.314, respectively (around two-thirds of the audit committee members are independent).

As to the ownership structure, the mean value and the standard deviation of the insider (management) ownership are 0.287 and 0.253, respectively, which is relatively high. Moreover, the concentrated ownership of top shareholders reflects a relatively high average value, where the average value and the standard deviation of the ownership concentration are 0.442 and 0.25 respectively. Finally, the transparency and disclosure index has a mean value of 0.663 and a standard deviation of 0.28, indicating that, on average, 66.3 percent of the 13 examined items of the TD index are reported. These findings confirm the results of the OECD (2019a) study that highlights corporate governance problems facing the region.

Table 4 also presents Pairwise Correlation; we perform pairwise correlation to detect any potential multicollinearity between the independent variables. The findings show that multicollinearity is not a problem in this study. Since all variables reflect low levels of correlation, less than 0.70 (Kennedy, 2008).

4.3. Regression Results

Table 5 presents the results of the dynamic corporate reputation equation model. The results show that audit committee independence has a positive and statistically significant impact on corporate reputation ($p < 0.05$). This finding indicates that independent directors on an audit committee improve company reputation. Previous empirical research found that audit committees with a greater proportion of independent directors are more likely to have effective oversight and a higher quality of financial reporting (Khudhair et al., 2019), which in turn improves corporate reputation. Moreover, this result supports our hypothesis (H2b).

Further findings reveal a significant negative association between ownership concentration and corporate reputation ($p < 0.05$). This result indicates that ownership concentration negatively affects stakeholders' perceptions of a company's reputation. These perceptions may exist, as concentrated ownership can affect the rights of minority owners and thereby reduce their satisfaction. In addition, large shareholders may interfere in decision-making to the extent that it hampers managers' ability to use their discretion (Shleifer et al., 1999). This finding confirms the study hypothesis (H3a) and is also consistent with previous empirical research in that concentration of ownership in the hands of large shareholders erodes the company's reputation (Bautista et al., 2010).

Regarding the rest of the corporate governance variables, they do not reflect any significant impact on corporate reputation. These insignificant results indicate that these governance mechanisms may be less visible to stakeholders and thus have a less significant impact on corporate reputation (Lu et al., 2015).

In terms of the control variables, the results show a significant positive link between lagged corporate reputation and current corporate reputation ($p < 0.01$). This indicates that past corporate reputation influences current corporate reputation and confirms that corporate reputation is a dynamic process. The results are also consistent with scholars' assumptions that corporate reputation slowly accumulates over time (Pérez-Cornejo et al., 2019; Rothenhoefer, 2019). The results show a positive and statistically significant relationship between firm size and corporate

Table 5. The impact of CG mechanisms on CR

Variables	GMM
CRit-1	0.375*** (0.123)
G	-0.0179 (0.0557)
CEO	0.0277 (0.0479)
AC	-0.00458 (0.00442)
AI	0.0525** (0.0242)
IO	0.00326 (0.00430)
OC	-0.0495** (0.0247)
TD	0.0663 (0.0593)
FS	0.0648*** (0.0180)
FL	-0.00449** (0.00206)
GDP	-0.000924 (0.0525)
In	-0.00111 (0.00210)
Industry	Yes
Year	Yes
Arellano-bond test for AR(1)	-2.09 (0.036)**
Arellano-bond test for AR(2)	0.94 0.348
Hansen test of over-identifying restrictions	9.04 0.928
Constant	-0.280 (0.538)
Observations	364
Number of Companies	96

Note: This table presents the results of the dynamic corporate reputation model by using a two-step system GMM estimator. The dependent variable is corporate reputation (corporate reputation index developed by using PCA). CRit-1 represents lagged corporate reputation. G denotes gender diversity. CEO indicates to CEO duality. AC is audit committee size. AI denotes audit committee independence. IO reflects insider ownership. OC represents ownership concentration. TD represents transparency and disclosure index. FL represents financial leverage. FS is a firm size. GDP is the country annual real GDP. In is the country annual inflation-consumer prices rate. Robust standard errors are in parentheses for the study variables, which are the p-values. *** p < 0.01, ** p < 0.05, * p < 0.1.

reputation ($p < 0.01$). As expected, large companies are more visible in the markets and have more resources to enable them to build their reputation compared to small companies (García et al.,

2013). Similarly, the same results were observed in previous empirical research (Adigüzel et al., 2018).

Further findings show a negative and significant relationship between financial leverage and corporate reputation ($p < 0.05$). This result indicates that the high reliance of a company on loan (debt) financing may make the company more vulnerable to financial risks. Furthermore, the excessive use of loans leads to periodic burdens on the company and payments to shareholders may become uncertain (Adenugba et al., 2016). Finally, no statistically significant effect of GDP and inflation rate on company reputation was found.

Overall, the dynamic corporate reputation model is well-specified. The findings of the diagnostic tests required for dynamic panel GMM are acceptable. The null hypothesis that there is no first-order serial correlation (AR1) was rejected, while the null hypothesis of the second-order serial correlation (AR2) was not rejected. The Hansen test for instrument over-identification was not rejected, which indicates the validity of the instruments used.

5. Conclusion

The study investigates the effect of corporate governance mechanisms on the corporate reputation of MENA-listed financial institutions. The present study finds that audit committee independence improves corporate reputation. Additionally, findings show that ownership concentration negatively affects corporate reputation. In terms of the control variables, the results reveal that lagged corporate reputation and firm size positively influence corporate reputation, while leverage reflects a negative impact on corporate reputation.

Previous research hypothesized that agency problems in general arise from conflicts of interest between shareholders and managers. Thus the shareholders are unable or it is costly to check whether the directors are acting in line with their best interest (Mitnick, 2015). Therefore, such problems make the firm face a higher cost, which is called the agency cost. According to Jensen and Meckling (1976), a firm may face four different sources of agency cost or agency problems, which are: (i) moral hazard; (ii) retention of profits; (iii) free cash flow (time horizon); and (iv) acceptable investment risk (investment options conflict). Overall, our main results are consistent with the agency theory arguments. First, agency theory asserts the key role of audit committee independence in reducing agency problems by enhancing control over the behavior of agents (managers). Second, according to the agency theory perspective, a high ownership concentration may lead to the extraction of company resources by dominant owners at the expense of other shareholders (Toumeh & Yahya, 2017).

This study considers a comprehensive set of corporate governance characteristics. The descriptive statistics findings of corporate governance variables can provide insights for policy makers and regulators to focus their reforms on the existing weaknesses of corporate governance. The results can help managers direct management efforts towards governance mechanisms (ownership concentration and audit committee independence) that enhance reputation, as the results revealed that such aspects of corporate governance will translate into stakeholder responses towards the company's reputation. Managers should take cognizance of governance attributes while strategizing for reputation-building activities. It also suggests that managers should take a keen interest in communicating good governance mechanisms to different stakeholders and making them more visible to consolidate the company's reputation.

This study encountered some limitations, which offers an avenue for further research. First, this study faced some limitations regarding the availability of data. Missing data is the main issue that faced this study in expanding the study sample; in addition, all the firm-level data was collected manually from the firm's annual reports, which limited the authors' ability to consider more companies and other countries. Thus, the results of this study cannot be generalized to other sectors or countries in the region. It would be interesting to conduct further research to examine

these relationships in the cases of other sectors and other developing countries, as well as to make comparisons between different countries in the MENA region. Second, this study relied on quantitative data collected from secondary data sources; further research could also incorporate qualitative aspects of the corporate reputation, such as customers' satisfaction, employees' satisfaction, product quality, emotional appeal, etc. Additionally, the current study is interested in investigating the relationship between corporate governance and corporate reputation. Further lines of research may investigate other determinants that could be important to corporate reputation, such as corporate reputation across social media, as well as the implications of a country's reputation.

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Appendix

Table A1. Sample Characteristics

Country of exchange	Insurance	Banking	OFS	Total
Jordan	10	15	12	37
Palestine	7	6	-	13
Qatar	4	8	4	16
Kuwait	2	8	20	30
Total	23	37	36	96

*All insurance companies, banks and other financial services listed in Palestine and Qatar were included in the study sample (According to Palestine Exchange Market (PEX) there is no OFS industry in Palestine). For Jordan and Kuwait, we selected the top 37 and 30 companies, respectively, based on market capitalization in the last year of the analyzed period (2020).

Table A2. Corporate Reputation Indicators

Variable	Symbol	Definition	References
Return on Assets	ROA	Net income before tax to total assets	(Batrancea et al., 2022)
Return on Equity	ROE	Net income before tax to total equity	(Ghuslan et al., 2021)
Market share	MS	Total revenue of a firm to total revenue of all firms in the same industry	(Navarro-García et al., 2020)
Human capital efficiency	HCE	VA/HC VA = Total revenue— (Total revenue— Employees cost) HC = Employees cost	(Baruah & Panda, 2020)
Price to earnings ratio	PE	Net income after tax/ weighted average number of common shares	(Kaur & Singh, 2018b)
Market to book value ratio	MB	Market capitalization/ book value of a company assets	(Blajer-Gołębiewska & Arkadiusz, 2016, Kaur & Singh, 2018b)

Table A3. TD items Checklist	
#	Transparency and Disclosure Index (TD)
1	Firms have an official website to disclose their financial information and their financial statements and annual financial reports
2	Firm objective/vision is disclosed
3	The firm reports follow accounting principles and/or international financial accounting standards (IFAS)
4	The firm has published annual corporate governance report
5	Annual reports are available to public/availability of annual report
6	The firm disclosed related party transactions
7	Firm reports provide detailed description about the firm/ corporate social responsibility
8	Firm disclose annual reports in English language
9	The credit rating details is revealed in firm annual reports
10	Penalties, sanctions, and lawsuits against or by the firm are revealed
11	Information about risk management is included in the annual report
12	Meeting information in details are available in corporate annual report
13	Annual reports include stock price information



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