THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE ON CORPORATE REPUTATION: THE INTERACTION EFFECT OF NATIONAL CULTURE FROM MENA COUNTRIES

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by

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LIST OF ABBREVIATIONS

AI	Audit Committee Independence
AMAC	American’s Most Admired Companies
ASE	Amman Stock Exchange
BA	Board Activity
BS	Board Size
CA	Customer Awareness
CD	Community-Involvement Disclosure
CEO	Chief Executive Officer
CG	Corporate Governance
CR	Corporate Reputation
CSI	Corporate Social Investment
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
CSRD	Corporate Social Responsibility Disclosure
CSRDI	CARD Index
ED	Environmental Disclosure
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
FS	Firm size
FL	Financial leverage
G	Gender
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GMM	Generalized Method for The Moment
GT	Generalized Trust
HCE	Human Capital Efficiency
HRD	Human Resource Disclosure
I	Industry
ID	Individualism
IFRS	International Financial Reporting Standards
In	Inflation Rate
IO	Insider (Directors) Ownership
ISO	International Standard Organization’s
JSC	Jordanian Securities Commission
KCMA	Kuwait Capital Market Authority
MB	Market To Book Value Ratio
MENA	Middle East and North Africa

MS	Market Share
NC	National Culture
NGO	Non-Governmental Organizations
OC	Ownership Concentration
OECD	Organization for Economic Cooperation and Development
PCA	Principal Component Analysis
PCD	Products And Consumers Disclosure
PCMA	Palestine Capital Market Authority
PE	Price to Earnings Ratio
PEX	Palestine Exchange
QFMA	Qatar Financial Market Authority
RDE	Resource Dependency Economics
ROA	Return on Assets
ROS	Return on Sales
RQ	Reputation Quotient
SOEs	State Owned Enterprises
TCE	Transaction Cost Economics
TD	Transparency And Disclosure Index
TD	Transparency And Disclosure Index
WMAC	World Most Admired Companies

IMPAK TANGGUNGJAWAB SOSIAL KORPORAT DAN TADBIR URUS KORPORAT TERHADAP REPUTASI KORPORAT: KESAN INTERAKSI BUDAYA KEBANGSAAN DARI NEGARA-NEGARA MENA

ABSTRAK

Reputasi korporat ialah aset tidak ketara yang berharga yang memainkan peranan penting dalam membangunkan kelebihan daya saing korporat yang kukuh. Ini adalah hasil logik tadbir urus korporat yang berkesan dan inisiatif tanggungjawab sosial korporat, kerana ia boleh bertindak sebagai isyarat yang mempengaruhi persepsi dan jangkaan pihak berkepentingan mengenai tingkah laku masa depan syarikat. Walau bagaimanapun, minat, jangkaan dan persepsi pihak berkepentingan mungkin dipengaruhi oleh faktor-faktor lain, seperti budaya kebangsaan, yang membentuk kepercayaan mereka tentang peranan yang harus dimainkan oleh syarikat dalam masyarakat. Oleh itu, objektif kajian ini adalah untuk menyiasat pengaruh tanggungjawab sosial korporat (CSR) dan tadbir urus korporat ke atas reputasi korporat, sambil mempertimbangkan kesan interaksi budaya kebangsaan terhadap hubungan antara CSR dan reputasi korporat. Kajian itu mengkaji sampel 96 syarikat kewangan yang disenaraikan di bursa saham empat negara MENA: Jordan, Palestin, Qatar, dan Kuwait, dalam tempoh dari 2016 hingga 2020. Untuk membangunkan indeks reputasi korporat, kajian itu menggunakan Analisis Komponen Utama (PCA) sebagai teknik untuk analisis multivariat. Tambahan pula, kajian itu menggunakan sistem panel dinamik Kaedah Detik Umum (GMM) untuk menganggarkan model reputasi korporat yang dinamik. Dapatan kajian menunjukkan bahawa CSR mempunyai kesan positif yang

signifikan terhadap reputasi korporat, membayangkan bahawa ia meningkatkan reputasi korporat. Di samping itu, keputusan menunjukkan bahawa kebebasan jawatankuasa audit mempunyai kesan positif dan ketara ke atas reputasi korporat, manakala penumpuan pemilikan dikaitkan secara negatif dengan reputasi korporat. Selain itu, keputusan menunjukkan bahawa individualisme mempunyai pengaruh yang positif dan signifikan terhadap hubungan antara CSR dan reputasi korporat. Sebaliknya, kepercayaan umum menunjukkan kesan negatif yang ketara terhadap hubungan antara CSR dan reputasi korporat. Penemuan ini menawarkan panduan berharga untuk pembuat dasar, pengawal selia, pengurusan kanan dan pihak berkepentingan lain. Kajian ini menyediakan bukti untuk pengurusan kanan di negara membangun yang melaksanakan CSR meningkatkan reputasi korporat. Oleh itu, kajian itu mengesyorkan penggunaan lebih banyak inisiatif CSR dan menekankan kepentingan pelaporan berkualiti tinggi untuk meningkatkan reputasi korporat. Selain itu, kajian ini menyediakan penilaian terkini tentang status tadbir urus korporat dalam konteks MENA, memberikan pandangan kepada penggubal dasar dan pengawal selia untuk memfokuskan pembaharuan mereka pada kelemahan sedia ada. Penemuan ini juga membantu pengurus dan pembuat keputusan dalam organisasi dengan mengenal pasti bidang tadbir urus korporat yang menyumbang kepada peningkatan reputasi syarikat. Akhirnya, keputusan membantu organisasi memilih struktur CSR yang sesuai berdasarkan ciri budaya masyarakat di mana mereka beroperasi.

THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE ON CORPORATE REPUTATION: THE INTERACTION EFFECT OF NATIONAL CULTURE FROM MENA COUNTRIES

ABSTRACT

Corporate reputation is a valuable intangible asset that plays an important role in developing a strong corporate competitive advantage. It is a logical outcome of effective corporate governance and corporate social responsibility initiatives, as they can act as signals that affect stakeholders' perceptions and expectations regarding the company's future behavior. However, stakeholders' interests, expectations, and perceptions may be influenced by other factors, such as national culture, which forms their beliefs about the role companies should play in society. Therefore, the objective of this study is to investigate the influence of CSR and corporate governance on corporate reputation, while considering the interaction effect of national culture on the relationship between CSR and corporate reputation. The study examines a sample of 96 financial companies listed on the stock exchanges of four MENA countries: Jordan, Palestine, Qatar, and Kuwait, during the period from 2016 to 2020. To develop corporate reputation index, the study employs Principal Components Analysis (PCA) as a technique for multivariate analysis. Furthermore, the study applies the dynamic panel system Generalized Method of Moments (GMM) to estimate the dynamic corporate reputation models. The findings of the study indicate that CSR has a significant positive impact on corporate reputation, implying that CSR improves corporate reputation. Additionally, the results reveal that audit committee independence has a positive and significant impact on corporate reputation, while ownership concentration is negatively associated with corporate reputation. Moreover, the results indicate that individualism has a positive and significant influence on the relationship between CSR and corporate reputation. Conversely, generalized trust demonstrates a significant negative impact on the relationship between CSR and corporate reputation. These findings offer valuable guidance for policy makers, regulators, senior management, and other stakeholders. The study provides evidence for senior management in developing countries that implementing CSR improves corporate reputation. Therefore, the study recommends the adoption of more CSR initiatives and emphasizes the importance of high-quality reporting to enhance corporate reputation. Moreover, the study provides an updated assessment of the status of corporate governance in the MENA context, providing insights for policy makers and regulators to focus their reforms on existing weaknesses. Additionally, the findings assist managers and decision-makers in organizations by identifying areas of corporate governance that contribute to improving company's reputation. Finally, the results help organizations to choose an appropriate CSR structure based on the cultural characteristics of the society in which they operate.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Nowadays, economic globalization and increasing competition require companies to have a strategic approach to promote competitiveness and survival. To achieve this, effective corporate reputation management has proven to be extremely important to corporate continuity (Carreras-Romero, Carreras-Franco, & Alloza-Losada, 2019). Corporate reputation is defined as the expectations of various stakeholders about a company's ability to satisfy their interests (Lange, Lee, & Dai, 2011). A good corporate reputation can create sustainable competitive advantage, superior financial performance, attracting investors, customers, employees and so on (Roberts & Dowling, 2002). Therefore, measuring and managing the company's reputation has received great attention from scholars.

The challenge in assessing intangible assets, such as corporate reputation, lies in the fact that their measurement is subjective and concealed (Pires & Trez, 2018). Particularly in the context of the Middle East and North Africa (MENA) region, with the lack of third-party independent agencies rating corporate reputation, such as, American Most Admired Companies (AMAC) and the World Most Admired Companies (WMAC) etc., making managing the reputation of MENA firms is more challenging. However, despite there is no common measure for corporate reputation, there is a consensus on the dimensions that form corporate reputation (Baruah & Panda, 2020).

On the other hand, organizations must effectively manage their corporate reputation by pursuing opportunities and implementing strategies that enhance it. These may include initiatives related to corporate social responsibility (CSR) and corporate governance (CG), considering institutional factors such as national culture, which shape stakeholders' perceptions of a company's CSR practices and reputation. These cultural values play a significant role in influencing the impact of CSR on a company's reputation. However, many previous studies in this regard have provided empirical evidence of the effectiveness of these strategies in enhancing companies' reputation (Islam et al., 2021; Navarro-García, Ramón-Llorens, & García-Meca, 2020; Pérez-Cornejo, de Quevedo-Puente, & Delgado-García, 2021; Rothenhoefer, 2019).

The term CSR refers to the practices and policies adopted by corporations to have a positive impact on their stakeholders (Wagner, Lutz, & Weitz, 2009). Consequently, CSR can significantly influence corporate reputation. Therefore, companies should effectively manage the impact of CSR to enhance their reputation. Firstly, companies should strive to improve the quality of CSR disclosure, as this enhances the visibility of CSR initiatives beyond internal stakeholders (Islam et al., 2021; Rothenhoefer, 2019). Additionally, companies should understand and adopt the best practices of CSR. It is important to note that people in developing and developed countries have different perceptions of what CSR should achieve. Researchers suggest that citizens in developed countries expect CSR to focus on "core company issues" such as environmental consequences and product quality, whereas citizens in developing countries may expect CSR to address "national or social issues" such as poverty and employment (Dobers & Halme, 2009; Jamali & Carroll, 2017). Therefore, companies should take the first step of understanding the unique characteristics, expectations, and needs of the region before implementing CSR initiatives.

Indeed, the MENA region faces numerous economic and political challenges, including high unemployment, a lake of transparency, inflation, and corruption. These challenges were further intensified by the Arab Spring protests that began in 2011(O'Sullivan, Rey, & Mendez, 2011). The region is characterized by a predominantly young population,, with two-third of its inhabitants under the age of 35, while the unemployment rate, as a percent of total labor force, stood at 10.63 percent in 2020, as depicted in Figure 1.1 (WorldBank, 2020).

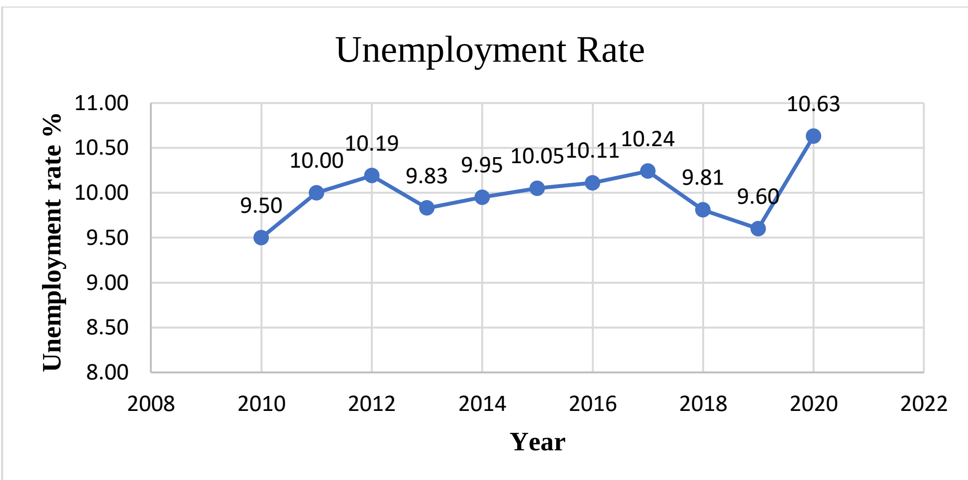

Figure 1.1 Unemployment rate in MENA countries over the past decade

Source: (WorldBank, 2020)

The economic deterioration and political conflicts in the MENA region have adverse effects on job growth, leading to potential consequences such as youth immigration, increased poverty, and reduced social welfare. The war in Syria, for example, resulted in a significant population decrease and displaced many people (Parker, 2021). The Covid-19 pandemic further exacerbated the region's economic challenges, potentially pushing an estimated 14.3 million people into poverty, totaling approximately 115 million people or 32% of the Arab population (Parker, 2021). Moreover, the region faces various environmental crises such as water scarcity, climate change, renewable energy, food scarcity, and ocean acidification (Abumoghli & Goncalves, 2019).

Therefore, job creation, poverty reduction, literacy and improving the standard of living, should be the top priorities of the CSR initiatives in the MENA region. In this regard, researchers argued that there is a gap between the CSR initiatives offered by the MENA companies and the needs and priorities of the region, with corporate philanthropy dominating CSR practices (Al-Marri, Pinnington, Karatas-Ozkan, & Nicolopoulou, 2019; Shehadi, Ghazaly, Jamali, Jamjoom, & Insight, 2013). On the other hand, some company's executives have concerns about complying with environmental protection regulations and its impact on profitability, thereby overlooking the importance of certain environmental prevalent in the region (Shehadi et al., 2013). Nevertheless, it's worth mentioning that the region itself exhibits variations in the level of CSR initiatives, whereas Gulf countries are seen as the leaders in CSR practices compared to other countries in the region (MENA-CSR, 2020). In conclusion, it is imperative to adopt CSR initiatives that align with the stakeholders' needs and expectations in the region. Furthermore, ensuring high-quality disclosure of these initiatives is essential for building a favorable reputation.

Additionally, it is crucial to consider the cultural context in which the company operates in order to comprehend the relationship between CSR and corporate reputation (Pérez-Cornejo et al., 2021). Culture encompasses of common elements such as knowledge, values, beliefs, and norms, which provide standard criteria for evaluation, perception, interaction, communication, and belief among individuals who share a common language, history, and geographical location (Goodenough, 1994). As a result, each national context is influenced by cultural or institutional factors that shape companies' behavior, such as CSR activities, and stakeholders' perceptions of their behavior (Ali, Lynch, Melewar, & Jin, 2015; Deephouse, Newburry, & Soleimani, 2016). Extensive research in this regard has provided evidence of the role played by national culture in shaping stakeholders' perceptions of a company's social responsibility activities (Gallén & Peraita, 2018; Koprowski, Mazzioni, Magro, & Rosa, 2021). In other words, stakeholders from different cultural backgrounds may perceive CSR practices differently.

In this context, researchers have pointed out that the MENA region possesses unique cultural attributes that influence CSR practices and shape the perception of stakeholders towards those practices (White & Alkandari, 2019). Ronnegard (2009) states that corporate philanthropy plays a significant role in the adopted CSR practices in the MENA region due to Islamic cultural values, such as Zakat (obligatory giving as one of the five pillars of Islam). Additionally, individuals and organizations in Islam are expected to exhibit a strong sense of collectivism and social responsibility towards one another, guided by the principle of Takaful, which promotes social solidarity (Rizk, 2008). Similar arguments are discussed by Alizadeh (2022), who highlight that CSR in the Middle East has distinct roots based on Islamic culture, making it unique and different from CSR practices in Western countries.

Furthermore, as mentioned earlier, corporate governance is another important strategy that enhances corporate reputation. In particular, researchers emphasize that various aspects of corporate governance, such as board structure, ownership structure, audit committee characteristics, and others, can enhance corporate performance, facilitate access to capital, promote transparency and accountability, instill stakeholder confidence, strengthen capital market competitiveness, and attract investors and other stakeholders, which ultimately creates a good reputation for the company (García-Meca & Palacio, 2018; Ghuslan, Jaffar, Mohd Saleh, & Yaacob, 2021; Navarro-García, Ramón-Llorens, & García-Meca, 2022).

According to Cadbury (1992), corporate governance is defined as the set of rules and guidelines that regulate and guide the operations of a company. In the context of the MENA region, significant developments have taken place in the landscape of corporate governance. For instance, the region has witnessed the establishment of 18 stock exchanges (capital markets) hosting approximately 1400 listed companies (A Amico, 2012). Furthermore, the OECD established the MENA Working Group on Corporate Governance in 2005, which marked the initial phase of corporate governance advancements in the region. In 2007, the OECD introduced the MENA-OECD Task Force with the objective of improving corporate governance in MENA banks. Subsequently, in 2010 the OECD launched the second phase of corporate governance in the region. Notably, the majority of the countries in the Middle East and North Africa (14 out of 17 countries) have already implemented corporate governance laws and regulations, as indicated in Table 1.1 (Otman, 2019).

Table 1.1 Corporate governance codes in MENA countries

Country	**General corporate governance code**	**Date of issuance**
Algeria	Yes	2009
Bahrain	Yes	2010
UAE	Yes	2007
Egypt	Yes	2005
Jordan	Yes	2008
Kuwait	Yes	2013
Lebanon	Yes	2008
Morocco	Yes	2008
Tunisia	Yes	2008
Saudi Arabia	Yes	2006
Oman	Yes	2002
Qatar	Yes	2009
Syria	Yes	2008
Yemen	Yes	2010
Palestinian National Authority	Yes	2009
Libya	No	–
Iraq	No	–

Source: (Otman, 2019).

Nevertheless, the MENA region faces numerous challenges and constraints concerning corporate governance, particularly due to the absence of a well-established institutional infrastructure that plays an important role in enhancing corporate governance practices. Additionally, the majority of the region markets are relatively young (Sethi, Braendle, & Noll, 2006). However, according to the OECD (OECD, 2019a), the current implementation of corporate governance in the region faces three main challenges. These challenges include the lack of transparency and timely disclosure of relevant and accurate information, a gender gap in corporate leadership with limited participation of female directors, and the concentration of ownership by family and the state.

Besides the fact that most of the companies listed on the MENA stock exchanges are characterized by high levels of ownership concentration, they are also relatively highly concentrated in terms of the sectorial composition. The banking sector only account for half of MENA's market capitalization. This can be attributed to its significant contribution to MENA countries' GDP and the mandatory listing requirement for banks in some of MENA countries (Alissa Amico, 2014). Therefore, financial institutions, especially banks, are expected to take the lead in corporate governance development and implementing CSR initiatives in the MENA region. This has prompted the interest of the study in exploring the reputation of financial institutions in the region.

In light of the aforementioned discussion, the present study aims to investigate the impact of CSR disclosure on corporate reputation. Furthermore, it examines the influence of various corporate governance mechanisms, namely gender, CEO duality, audit committee independence, audit committee size, ownership concentration, insider ownership, and transparency and disclosure, on corporate reputation. Lastly, it intends to explore the effect of national culture, specifically individualism and generalized trust, on the relationship between CSR disclosure and the corporate reputation within the context of listed financial institutions in the MENA region.

1.2 Problem Statement

Research highlights corporate reputation as one of the most valuable intangible asset for companies due to its crucial role in establishing a strong competitive advantage, attracting investors, customers, and employees, and enhancing acceptance and credibility (Roberts & Dowling, 2002). Considering this, maintaining a favorable reputation for MENA listed financial institutions is of great importance, given their substantial contribution to the region's economy. For instance, the banking sector alone accounts for half of MENA's market capitalization (Alissa Amico, 2014).

However, monitoring corporate reputation presents a challenge, primarily due to the difficulties associated with measuring it (Pires & Trez, 2018). Corporate reputation is the sum of the stakeholders' perceptions about the company's ability to meet their interests (Lange et al., 2011). Therefore, corporate reputation should be evaluated in light of several dimensions that representing various stakeholders. Although academics generally agree on the dimensions that might contribute to corporate reputation, but there is no consensus yet on a standard approach to measure the entire reputation (Baruah & Panda, 2020). This challenge becomes even more pronounced in the context of the MENA region, where there is a lack of databases providing information on corporate reputation, such as AMAC and WMAC, which are typically limited to a set of companies in developed nations (S. Li, Spry, & Woodall, 2020).

Besides the importance of measuring corporate reputation, exploring factors that can enhance corporate reputation is crucial for maintaining and managing corporate reputation. Previous research in this regard has demonstrated that organizations can employ CSR practices as a strategic approach to build a solid corporate reputation, as CSR influences the fulfillment of the stakeholders' interests and improve their perceptions on how the company will act in the future (Mnif Sellami, Dammak Ben Hlima, & Jarboui, 2019). Additionally, they added that to maximize the benefit of CSR practices in relation to corporate reputation; organizations have to apply CSR initiatives that meet the stakeholders needs and expectations of CSR practices, as well as disclose and communicate these activities to different groups of stakeholders (Islam et al., 2021; Rothenhoefer, 2019).

As mentioned before, MENA region faces many of political and economic challenges as high unemployment rate, pervasive corruption, lack of corporate governance and several environmental problems (Otman, 2019). Most of the population of the MENA region is young, while the unemployment rate as a percent of total labor force was 10.63 percent according to 2020 (WorldBank, 2020). Thus, creating job opportunities, reducing poverty and improving living standards are the most important issues that facing MENA societies and should be the top priority for CSR. In this respect, researchers argue that the concept of CSR still not clearly understood, as the general perspective of CSR in the region is related to the concept of philanthropy and donations (Al-Marri et al., 2019; Shehadi et al., 2013). Therefore, organizations in the MENA region needs to adopt a planned and strategic CSR practices that meet the above mentioned priorities and needs.

Furthermore, the cultural context in which a company operates influences the relationship between CSR practices and corporate reputation. This effect is attributed to; Firstly, cultural values play an important role in shaping the decisions regarding the adoption of CSR practices (Gallén & Peraita, 2018). For instance, in the MENA context, researchers explain the dominance of charitable practices within the CSR landscape, which is culturally embedded due to Islamic instructions such as the principle of Zakat (White & Alkandari, 2019). These cultural values guide the choices made by companies in their CSR initiatives.

Secondly, cultural values also impact how stakeholders perceive and interpret corporate activities, including CSR practices. Maignan (2001) demonstrated that stakeholders from different nations assign varying levels of importance to a company's social responsibility activities based on their diverse cultural values. This suggests that the perception and evaluation of CSR practices can differ across cultural contexts. Moreover, Deephouse et al. (2016) highlighted that national culture influences stakeholders' expectations regarding the role that companies should play in society, which, in turn, affects corporate reputation. In the MENA region, the unique cultural characteristics shaped by Islamic principles, such as the obligation of Zakat, social solidarity, and integrity in business dealings, can influence the decision-making process regarding the adoption of CSR practices and stakeholders' perception of these practices (Alizadeh, 2022; White & Alkandari, 2019).

Corporate governance practices also play a crucial role in effectively managing reputation. Previous research has demonstrated that the implementation of various governance mechanisms, including board gender diversity, CEO duality, audit committee size and independence, ownership concentration, insider ownership, and transparency, can have an impact on corporate reputation in multiple ways. Firstly, studies have showed that female participation on boards enhances corporate reputation, signaling the company's commitment to diversity and non-discrimination (Navarro-García et al., 2022). Conversely, CEO duality, which concentrates managerial power, is associated with a negative impact on reputation (García-Meca & Palacio, 2018).

Regarding the audit committee, studies have reported that both audit committee size and independence contribute to improve financial reporting quality, expand audit scope, and reduce agency problems, thus enhancing corporate reputation (Pérez-Cornejo, de Quevedo-Puente, & Delgado-García, 2019). Similarly, previous studies have shed light on the implications of ownership characteristics for corporate reputation.

Ownership concentration has found to erode reputation by affecting the rights of minority owners, while insider ownership mitigates agency problems and conflicts of interest, enhancing reputation (Delgado-García, De Quevedo-Puente, & De La Fuente-Sabaté, 2010). Finally, research indicates that transparent and high-quality information disclosure plays a crucial role in enhancing corporate reputation. When companies provide accurate and comprehensive information to stakeholders, it enhances credibility, increases shareholder confidence, and improves overall corporate reputation (Madhani, 2009).

According to the above discussion, it can be concluded that the adoption of effective corporate governance practices, including board gender diversity, CEO duality, audit committee size, audit committee independence, ownership concentration, insider ownership, and transparency and disclosure, is crucial for managing and improving corporate reputation. In the context of the MENA region, several developments have taken place in these aspects of corporate governance over the past decade. Most MENA countries have introduced codes of corporate governance principles, which provide the legal and regulatory frameworks for corporate governance practices in the region (Cuomo, Mallin, & Zattoni, 2016).

However, despite these developments in the corporate governance landscape in the MENA region, the region still faces numerous challenges regarding the application of these corporate governance practices. The OECD study has identified three main challenges in corporate governance in the MENA region, including a high level of ownership concentration, a lack of transparent business culture, and limited participation of women in leadership positions (OECD, 2019a). Furthermore, it is observed that not all organizations are fully committed to implementing the MENA corporate governance codes (Farah, Elias, Aguilera, & Abi Saad, 2021). In addition, it is claimed that the separation of CEO and Chairman positions is very difficult in the MENA region, given the dominance of family businesses in the region (Farah et al., 2021).

Considering the above mentioned research problems and gaps, the current study aims to investigate the influence of CSR disclosure on corporate reputation, taking into account the interaction effect of national culture on the relationship between CSR and corporate reputation. Additionally, the study seeks to examine the impact of various corporate governance mechanisms, including board diversity, CEO duality, audit committee size, audit committee independence, ownership concentration, insider ownership, and transparency and disclosure, on corporate reputation within the context of MENA listed financial institutions.

1.3 Research Objectives

The main aim of this study is to examine the impact of corporate social responsibility (CSR) and corporate governance (CG) on corporate reputation (CR) within the context of listed financial firms in the MENA region from 2016 to 2020. Additionally, the study aims to investigate the influence of national culture on the relationship between CSR and corporate reputation. To achieve these objectives, the study aims to accomplish the following specific objectives:

1- To investigate the effect of corporate social responsibility (CSR) on corporate reputation (CR) of the MENA listed firms.

2- To examine the effect of board of directors' characteristics on corporate reputation of the MENA listed firms.

3- To evaluate the impact of audit committee characteristics on corporate reputation of the MENA listed firms.

4- To test the influence of the company's ownership structure on corporate reputation of the MENA listed firms.

5- To examine the impact of transparency and disclosure on corporate reputation of the MENA listed firms.

6- To assess the influence of national culture on the relationship between corporate social responsibility and corporate reputation.

1.4 Research Questions

The research questions arising from the research problem are:

1- Does corporate social responsibility lead to a better corporate reputation?

2- Do the characteristics of the company’s board of directors affect the company’s reputation?

3- Do the characteristics of the company’s audit committee influence the company’s reputation?

4- Does the company’s ownership structure affect the company’s reputation?

5- Do transparency and disclosure mechanisms relate to the company's reputation?

6- Does national culture influence the relationship between corporate social responsibility and corporate reputation?

1.5 Significance of the Study

This study has several contributions previous research in several aspects; First, the lack of studies addressing national culture, corporate social responsibility, corporate governance, and corporate reputation in the context of emerging markets and developing economies, particularly within the MENA region. Thus, the current study has the opportunity to expand the scope of previous studies in relation to the research topic.

Second, measuring the company’s reputation is found to be challenging. Since company reputation is a multidimensional concept, it is not easy to define or measure, and thus there is no universally accepted or single measure for it. Although there is no common measure of company reputation, there is consensus on the key dimensions that must be considered to measure company reputation, such as emotional appeal, product and service, financial results, financial soundness, vision and leadership, work environment, and social responsibility (Baruah & Panda, 2020). In this regard, the study develops a multidimensional measure for corporate reputation by utilizing six indicators that cover four fundamental dimensions, as discussed in Chapter 4.

Third, this research highlights the problems facing the CSR practices in the region. CSR implementation in the MENA region is perceived as unstructured, with a predominant focus on charitable practices (Jamali & Neville, 2011). Similarly, Shehadi et al. (2013) argued that there is a gap between CSR initiatives offered by MENA companies and the actual needs of stakeholders. Moreover, the application of strategic CSR in Eastern countries is relatively lower compared to Western countries, and some researchers suggest that a "one size fits all" approach based on Western laws and regulations may not be suitable for developing countries or emerging markets (Peters, Miller, & Kusyk, 2011). Therefore, this study develops a CSR-disclosure index that measures the extents to which corporations engage in structured CSR programs aligned with the region's needs and expectations, such as job creation and unemployment, and examines its impact on corporate reputation.

Moreover, this research sheds light on the corporate governance challenges in the MENA region, such as the prevalence of concentrated ownership, the necessity for a more transparent business culture, and the limited representation of women in leadership positions (OECD, 2019a). In this regard, the present study investigates the impact of corporate governance, in relation to these problems, on corporate reputation, which in turn added value to the existing literature.

Another important aspect considered in this study is culture. As discussed earlier in this chapter, culture in the MENA region is deeply influenced by religion, particularly Islamic thought and principles, which are closely connected to corporate social responsibility. Furthermore, examining the impact of culture on the relationships between CSR and corporate reputation can also explain the differences between countries in the MENA region in the application of CSR.

Finally, the current study considers the dynamic nature of corporate reputation. This study applies dynamic panel generalized method of moments (GMM) to estimate corporate reputation models. Previous research demonstrated that corporate reputation is slowly accumulates over time, where the current state of the corporate reputation may be influenced by the previous reputation (Rothenhoefer, 2019). Therefore they used the lagged corporate reputation as an explanatory variable, which causes endogeneity problem. In this regard, the GMM estimator can serve as a suitable estimation method that offers many advantages, among which is the consideration of the endogeneity problem. However, studies that used the GMM estimation method to examine the dynamic process of corporate reputation are still scarce, and thus the current study can add value to existing reputation studies.

1.6 Definitions Key Terms

MENA Region

Middle East and North Africa (MENA) is a region that consists of 19 countries from Northwest Africa in Morocco to Iran in Southwest Asia. Economically, some countries in the MENA region suffer from extreme poverty, while others serve as crucial oil hubs, accounting for up to 65% of the world's oil reserves, with Gulf countries, in particular, are among the wealthiest nations globally (Jamali, Jain, Samara, & Zoghbi, 2020).

Corporate Governance (CG)

Corporate governance is defined as the set of rules and guidelines that regulate and guide the operations of a company (Cadbury, 1992). These principles encompass regulations regarding board composition, audit committees, ownership, and disclosure requirements. They are established to effectively organize and manage the relationship between owners (shareholders) and principals (agents). The adoption of good practices related to various aspects of corporate governance can help minimize conflicts of interest between these parties (Mitnick, 2015). In the present study, we specifically examine corporate governance practices concerning board diversity, CEO duality, audit committee size, audit committee independence, ownership concentration, insider ownership, and transparency and disclosure.

Corporate Social Responsibility (CSR)

CSR is defined as a concept in which companies voluntarily integrate social and environmental concerns into their business operations and interactions with stakeholders (EU, 2002). In the modern perspective, investing in CSR practices is seen as a means to enhance economic performance, establish a sustainable competitive advantage, and improve corporate reputation (Islam et al., 2021). To achieve these outcomes, companies should adopt structured or planned CSR practices, thereby addressing the limitations associated with traditional CSR practices, such as unsystematic philanthropy.

CSR Disclosure

Voluntary or mandatory disclosure involves communicating the social and environmental performance of a company to various stakeholders through the company's annual reports (Zeghal & Ahmed, 1990). In line with previous research, the quality of CSR disclosure in this study refers to extent to which CSR practices are disclosed in the firm's annual reports, focusing on four primary categories: community, employees, customers, and environment (Barakat, Pérez, & Ariza, 2015).

Stakeholders

Any group or individual who can affect or is affected by the achievement of the organization's objectives is considered a stakeholder (R. Freeman, 1984). In the context of this study, stakeholders are defined as any individuals or groups that have perceptions about a company's actions, which in turn reflect its reputation.

Corporate Reputation (CR)

The set of meanings by which a company is known and through which people describe, remember, and relate to it. It is the net result of the interaction of a person's beliefs, ideas, feelings, and impressions about the company. A company will not have a reputation; people hold reputations of the company.

Reputational Risk

The set of direct economic consequences produced by the modification of the public image of an entity, such as a public company or a person with a public relevance (Gabbi, 2004).

Corporate Image

The result of a process, which consist of thoughts, feeling and experience that shapes a perception of the organization (Gotsi & Wilson, 2001).

Corporate Identity

The result of a process, which consist of thoughts, feeling and past experience that shapes a perception of the organization (G. Dowling, 2001).

1.7 Organization of the Thesis

Chapter one provides an overview of corporate governance, CSR, and corporate reputation in the MENA region. It highlights some of the challenges faced by the MENA region in terms of corporate governance, CSR, and corporate reputation. Additionally, this chapter identifies the research problem, research questions, objectives, and contributions of the study.

Chapter 2 discusses the background of MENA countries in relation to the research topic. Chapter 3 presents the theoretical background of national culture, corporate governance, CSR, and corporate reputation, as they relate to the research topic. This chapter also develops the research hypothesis and reviews previous empirical studies related to the research topic. Chapter 4 elaborates the research framework, research methodology, sample selection, data collection and equation model. Chapter 5 presents the results of data analysis. Chapter 6 summarizes the findings, discusses the limitations of the study, provides recommendations, and suggests avenues for further research.

CHAPTER 2

THE BACKGROUND OF MENA COUNTRIES

2.1 Introduction

The first section of this chapter discusses the economic situation in the MENA region as well as the factors that have led to economic disparities between countries in the region. The next section highlights the evolution of the financial system in the MENA region. The third section of this chapter reviews the established codes of corporate governance in MENA countries, while each of the study sample countries, namely Jordan, Palestine, Qatar, and Kuwait, is discussed in a subsection. The last section reviews the characteristics of national culture in the context of the MENA region.

2.2 Economic Variations among MENA Countries

Despite the common language, origin, and history of the MENA region, it is economically diverse. The GDP per capita varies widely, from high levels in the Gulf States, with wealth in natural resources and a relatively small population, to lower levels in other countries in the region.

For instance, in 2018, Qatar's GDP per capita was 68.8 thousand US dollars, which is 76.4 times the GDP per capita of Yemen, which is 0.9 thousand US dollars. While it is worth noting that the per capita GDP for all of the Gulf Cooperation Council (GCC) countries was higher than the global average of 11.3 thousand US dollars for that year (WorldBank, 2018b).

However, in the same year, the overall GDP of the MENA region was 3.388 trillion US dollars, which represents only 3.9% of the global GDP (see figure 2.1 GDP trend in MENA) (WorldBank, 2018a). In addition, this variation also applies to other economic indicators such as the unemployment rate and inflation. For example, the unemployment rate in 2018 ranged from 0.1%, which is the lowest level in the region, as in the state of Qatar, to the highest level, which is in Palestine at 24.2% (tradingeconomics, 2020).

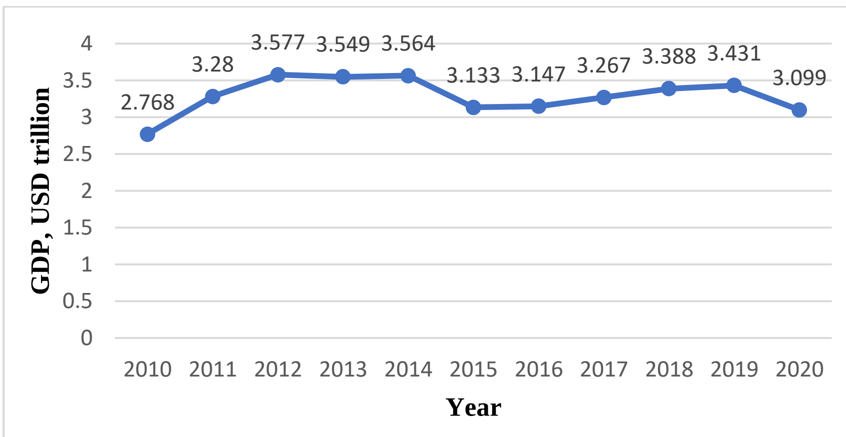

Figure 2.1 GDP trend in MENA countries over the past decade.

Source: world Bank 2020.

Perhaps the main reason for these economic differences is oil rent, which is considered the main source of economic wealth in oil-rich states. Additionally, oil rent influences regional economic relations. Oil has a significant impact on inter-Arab relations, primarily because of the controversy between oil-poor and oil-rich countries. Moreover, it is worth mentioning that the oil-rich countries were newly founded in the first half of the last century and are relatively new in terms of history compared to the oil-poor countries, which have deeper historical roots (Salamé, 2013). Certainly, the division in the region according to oil-rich and oil-poor countries is not the only factor in the division of Arab regional relations, but it has been very important. Despite the Arab nationalist ideology, which dominated the region for a long time, the dichotomy is not directly related to the oil alone; rather, it is a reaction to Balkanization, which "means dividing a multinational state into smaller ethnically homogeneous entities". which is also related to oil, which in turn creates conflicts among the region's states that are divided according to deeper history: recently founded, conservative, progressive, oil-poor countries, oil-rich countries of the Gulf and North Africa, etc. (Luciani, 2017).

In regional relations, oil-poor nations have made clear, implicitly or explicitly, their claim to a share of oil rents, while oil-rich nations have never accepted it as legitimate. Nevertheless, in the 1970s, the increase in oil rents was very surprising, while oil renter governments found it prudent to be generous both outside and within their borders. Thus, they created international agencies specialized in redistributing a share of oil revenue as grants to neighboring governments. Countries like Syria, Jordan, the Palestine Liberation Organization, and Egypt (until the Egyptian-Israeli peace agreement) have directly benefited from these grants. Likewise, Iraq became a beneficiary country during its war with Iran.

However, Iraq's decision to invade the state of Kuwait and the attitude of Jordan, Yemen, and the Palestinians towards this incident prove that generosity sometimes generates a grudge. Consequently, the Arab Gulf states seriously revised their previous generous attitude by expelling large numbers of immigrants from various Arab countries and establishing the Gulf Cooperation Council (GCC) as a club of oil-rich countries that seeks secession and creates an independent integration project from the rest of the region (Luciani, 2017).

More recently, many other factors have also affected the region's economy, such as the era of low oil prices in the 1990s, followed by the US-led NATO alliance intervention in Iraq in 2003, which dramatically affected oil prices for another decade (2004–2014). In the recent past, the Gulf States dominated the development model in the region in the form of luxury tourism, high income, well-developed infrastructure, and increasing investment opportunities that emphasized a clear distance between the oil exporters of the Gulf and the rest of the region. Perhaps the main reasons for the Arab Spring eruption in 2011 were income variation and distribution at the regional level, which created a sense of inequalities that, in the end, ignited resentment and revolt against the incumbent authoritarian regimes (Piketty & Alvaredo, 2014).

2.3 Financial System in MENA Region

Financial system refers to the flow of excess money from individuals and organizations that have surpluses to those that have deficits. While financial institutions refer to companies that provide financial services to their customers, the most important financial service provided by financial institutions is related to their intermediary role (Asia & Institute, 2004).

Ten years ago, in 2011, the Arab Spring erupted in many of the MENA countries to claim better livelihoods, including job creation, income improvement, eliminating corruption, etc. In this regard, governments have undertaken many economic reforms, but almost all of these governments have failed to implement deep structural economic reforms that would provide better economic conditions and more diversified and innovative modern economies (Arezki, 2019).