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Article

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The Impact of Corporate-and Country-level Governance Mechanisms on the Firm's Disclosure Quality: Evidence from MENA Countries

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ABSTRACT

Purpose: The paper aims to investigate the impact of corporate and country-level governance mechanisms on the firm's disclosure quality.

Design/methodology/approach: The paper employs a panel dataset comprising 96 financial institutions listed on the stock markets of four countries in the MENA region: Palestine, Jordan, Kuwait, and Qatar. This dataset spans five years, from 2016 to 2020. Data primarily originate from the annual reports of these institutions and are subjected to analysis through pooled OLS, fixed effect (FE), and random effect (RE) methodologies.

Findings: The main findings of this study reveal that corporate governance (CG) factors, including board size, board meetings, and audit committee size, have a positive impact on disclosure quality. Additionally, concerning country-level governance, the role of law positively influences disclosure quality, whereas political stability and corruption negatively influence disclosure quality.

Research limitations/implications: This study's main limitations are missing data, especially regarding the audit committee information, and the lack of a database covering the firms in the MENA region. The findings can help managers, policymakers, and other stakeholders enhance the firm's disclosure by adopting good corporate and country-level governance practices.

Originality/value: The study develops a disclosure quality index that examines various disclosure requirements attributes, encompassing financial and non-financial disclosure aspects. Such an index adds value to prior research on disclosure quality. Additionally, this study expands the scope of previous research by incorporating wide aspects of CG attributes and investigating the role of country-level governance.

Keywords: Discourse Quality, Corporate Governance, Country-Level Governance, MENA

I. Introduction

Recently, with large organizations and the flourishing of economic activities, owners, in the form of many shareholders, have delegated business operations to other parties called managers (Salehi,

Jamalikazemini, & Farhangdoust, 2018). According to agency theory, a division between management and ownership results in agency costs primarily stemming from the divergence of interests between managers and owners (Fama & Jensen, 1983). In this context, stakeholders cannot verify managers' behavior until they receive the required information about business operations. Therefore, stakeholders demand that the organization's managers provide high-quality disclosure, including financial and non-

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financial information, to reduce information asymmetry and diminish agency costs arising from such information asymmetry between managers and stakeholders (Herath & Altamimi, 2017). Researchers also stated that disclosure quality is responsible for developing equity markets and attracting potential investment. Investors generally tend to avoid stock markets that suffer from a poor flow of information between managers and investors and low levels of disclosure (Chau & Gray, 2010). This pressures organizations to maintain a disclosure system that provides timely, reliable, transparent, and comparable financial and non-financial information to enable well-informed economic decisions (Hamad et al., 2022). In the MENA context, the size of the region's equity markets does not reflect its economic potential, with bank financing dominating the capital structure in the region. This is primarily attributed to the lack of transparent disclosure required to attract investment opportunities and improve the capital market (OECD, 2019).

In this light, corporate governance (CG) systems are primarily established to protect investors by fostering an environment of transparency, trust, and accountability essential for promoting investment and ensuring financial stability (Altawalbeh, 2020). Scholars have emphasized the significance of governance practices, particularly regarding the composition of the board of directors and the audit committee, as pivotal governance mechanisms that guarantee the quality of disclosure (Agvei-Mensah, 2019; Altawalbeh, 2020). In this regard, the MENA region has achieved notable advancements in the CG landscape, while most of the region's countries have established codes of CG prencipels (A Amico, 2012). However, researchers reported that the current application of CG in the region faces several challenges. For instance, Farah, Elias, Aguilera, and Abi Saad (2021) claimed that separating CEO and chairman positions is difficult in the MENA region, given the predominance of family businesses. The OECD (2019) found a clear gender gap at the firms' top-management level in the MENA region. In addition, not all organizations are committed to

implementing the MENA CG codes (Farah et al., 2021). However, CG practices vary among different sectors in the region, with the financial sector, especially banks, dominating the capital markets landscape in the MENA region. This is due to the mandatory listing of financial institutions in some countries within the region. Additionally, the financial sector contributes significantly to the region's GDP (Alissa Amico, 2014).

Besides the importance of good CG practices, country-level governance mechanisms are also relevant factors affecting a firm's disclosure quality. The institutional theory argues that organizations are influenced by a range of institutional conditions, including regulatory and political factors, which shape their behavior and interactions with their stakeholders (DiMaggio & Powell, 1983). Numerous nations have implemented new regulatory standards aimed at enhancing investor safeguards and bolstering the effectiveness of financial markets (Ernstberger & Grüning, 2013). However, in the MENA context, the region faces many political and regulatory challenges, such as rampant corruption and political instability. These challenges were further intensified by the Arab Spring protests that began in 2011 (Otmam, 2019). Regardless, the MENA region is diverse, with some countries having more advanced regulatory regimes and being more politically stable, such as Gulf states, than others in the region (Jamali, Jain, Samara, & Zoghbi, 2020). This discussion raises the study question of what the impact of corporate and country-level governance mechanisms is on a firm's disclosure quality in the region.

Therefore, the main aim of this study is to examine the impact of corporate and country-level governance mechanisms on the quality of a firm's disclosure. The study used a sample of 96 financial firms listed in four countries within the MENA region, namely Palestine, Jordan, Kuwait, and Qatar. The study findings show that CG mechanisms, such as board size, frequency of board meetings, and audit committee size, positively affect disclosure quality. Furthermore, in terms of country-level governance, the results reveal that the role of law positively affects

the firm's disclosure quality, while political stability and corruption level have a negative influence on disclosure quality.

The present study makes several contributions to previous research. First, prior studies on disclosure quality often used earnings management indicators as proxies for disclosure quality (Asmar, Alia, & Ali, 2018; Góis, 2009) or focused on voluntary disclosure requirements (Altawalbeh, 2020; Khelif, Samaha, & Amara, 2021), such as financial statement reporting. In contrast, the current study develops a disclosure quality index that evaluates various attributes of disclosure requirements, encompassing both financial and non-financial aspects and covering both voluntary and involuntary disclosure aspects. Such an index adds value to previous research on disclosure quality.

Second, this study extends previous research by examining the impact of a wide range of corporate governance mechanisms, including board structure and audit committee structure, on disclosure quality. On the other hand, the current study is also concerned with the impact of governance mechanisms at the country level. However, very few studies have examined the impact of country-level governance on disclosure quality in the case of developed countries (Bonetti, Magnan, & Parbonetti, 2016; Ernstberger & Grüning, 2013), with a lack of studies conducted in the context of developing countries, especially in the MENA region.

Third, the current study considers a sample of financial institutions across MENA countries with diverse political and regulatory conditions, which enhancing its value. Finally, the study's findings provide several important implications for various stakeholders.

The subsequent sections of this study are structured in the following manner: The subsequent part provides a concise summary of the ideas and presents a comprehensive assessment of the existing literature. The methodology of the investigation is explained in the third section. The subsequent section, referred to as the fourth segment, is dedicated to presenting the study findings and subsequent discourse. The study culminates by presenting its findings, discussing

the implications, acknowledging the limitations, and proposing research to expand the current study.

II. Literature Review and Hypotheses Development

A. Corporate Governance Mechanisms and Firm's Disclosure Quality

Corporate governance (CG) is defined as the set of rules and guidelines that regulate and guide the operations of a company (Cadbury, 1992). The main goal of financial reporting is to provide data that assists decision-making for people who use financial statements. The failure of major listed companies in recent years has increased the need for accurate, regular, transparent, and timely disclosure (Agyei-Mensah, 2017). Thus, CG codes are established to promote high-quality disclosure, which refers to the fulfillment of the disclosure requirements (Hamad et al., 2022).

In previous studies, several corporate governance mechanisms were used to examine the relationship between corporate governance and disclosure quality. Nawafly and Alarussi (2019) examined the impact corporate governance mechanisms on disclosure quality using a sample of 150 non-financial Malaysian firms for the year of 2014. They considered seven variables of corporate governance, namely board independence, board size, board expertise, audit committee independence, audit committee size, audit committee expertise, and external audit firm. The findings showed that all of the used variables except of board independence have a positive significant impact on disclosure quality. They concluded that corporate governance mechanisms are relevant factors for enhancing disclosure quality.

In the same vein, Khiari (2013) investigated the relationship between corporate governance mechanisms and disclosure quality within the context of 46 Tunisian companies over the period from 2001 to 2010. The study examined a broad spectrum of

governance mechanisms, encompassing aspects related to board characteristics, ownership structure, and audit committee composition. His argument was that companies with robust governance systems enjoy better disclosure quality. Another study by Altawalbeh (2020) explored the impact of corporate governance mechanisms on a firm's voluntary disclosure quality in the case of 72 listed firms in Jordan. It utilized a set of ten variables for corporate governance mechanisms that covered different aspects of corporate governance. The findings revealed that audit committee independence, audit committee meeting frequency, board independence, and foreign ownership have a positive impact on a firm's disclosure quality.

Likewise, Asmar et al. (2018) found that corporate governance mechanisms in terms of board size, board ownership, and auditor type positively influence disclosure quality, while board compensation and audit committee size have a negative impact on disclosure quality, using a sample of 49 Palestinian firms. Similar results were also reported by Soheilyfar, Tamimi, Ahmadi, and Takhtaei (2014) within the context of 83 Iranian firms during the periods from 2005 to 2010. Their conclusion was that sound corporate governance practices, particularly in the areas of internal audit, chairman independence, CEO duality, board independence, and ownership concentration, contribute to the improvement of the firms' disclosure quality.

However, the findings of previous studies suggest that various aspects of corporate governance mechanisms can act as precursors to high-quality disclosure. Furthermore, it can be inferred that corporate governance mechanisms play a crucial role in determining the quality of a firm's disclosure. In this context, this paper specifically emphasizes the role of corporate governance mechanisms in terms of the board structure and the audit committee structure in enhancing disclosure quality.

1. Board Structure

Academic research emphasizes the relevance of board structure in avoiding conflicts of interest and

agency expenditures (Yi, Chia-Wei, & Chotigeat, 2007). As a result, several board characteristics, including its size, meetings, gender diversity, and the CEO's dual position, are critical governance mechanisms (Al-Khazaleh, Ibrahim, MIA, & Badwan, 2023). In terms of board size, researchers demonstrated that larger boards foster stronger oversight, bring diverse skills and experiences, and thus provide the opportunity to improve the quality of disclosure (Asmar et al., 2018). The empirical evidence provided by Góis (2009) showed that board size has a positive impact on the firm's disclosure quality. Similarly, Htay, Mohd Said, and Salman (2013) found a positive and significant relationship between board size and disclosure quality. This is because a larger number of directors allows for greater capability for monitoring on the part of directors, resulting in higher disclosure quality.

H1a: A larger board size has a positive impact on the firm's disclosure quality.

Prior research shed light on the board meetings as an indicator of the board's effectiveness. Holding regular and frequent board meetings is necessary to ensure robust control of the firm's activities, engage in discussions about the firm's situation, and provide new suggestions (Makhlouf, Laili, Ramli, & Basah, 2017). In this regard, the empirical study demonstrated a favourable relationship between the calibre of disclosure and board meetings (Asmar et al., 2018; Laksmana, 2008).

H1b: A high frequency of board meetings has a positive effect on the firm's disclosure quality.

Researchers have also examined the pivotal role of the CEO's responsibilities. CEO duality occurs if the same person simultaneously occupies the positions of chairman and CEO. Corporate governance guidelines have posited that when the CEO assumes both of these roles, it results in power concentration and an increase in managerial dominance (Rashid Issa, 2019). Furthermore, studies examining the connection between CEO duality and disclosure

quality have asserted that CEO duality can negatively affect disclosure quality for several reasons. Firstly, CEO duality can influence the independence of the board of directors and its capacity to effectively oversee management. Second, dualism may prevent the CEO and board members from exchanging information, diminishing the amount of information disseminated (Khlif et al., 2021).

H1c: CEO duality has a negative impact on the firm's disclosure quality.

Regarding board gender diversity, the literature suggests that companies with female managers often have higher quality disclosure. This implies that female managers are less likely to endorse policies that reflect opportunistic behaviour (Abad & Bravo, 2018). This supports the claim that women's differing values influence organizational choices in the workplace. Consequently, female directors are less likely to collaborate with upper-level executives in manipulating a company's financial statements for personal benefit. Individuals with a higher propensity for empathy are also more inclined to bring to light deceptive journalistic practices since their empathetic disposition prioritizes the welfare of stakeholders over personal benefit. This ultimately leads to more effective monitoring of disclosure (Kaplan, Pany, Samuels, & Zhang, 2009). Empirical findings in this regard showed a positive and significant relationship between female directors and the transparency and accuracy of the firm's reports (Gul, Hutchinson, & Lai, 2013).

H1d: Female directors have a positive impact on the firm's disclosure quality.

2. Audit Committee Structure

The Audit Committee (AC) is often recognized as one of the most important government systems. The primary function of the AC is to ensure the precision and reliability of the organization's financial reporting and the authenticity of its financial statements (Ji, 2020). However, the composition or characteristics of an AC are often used as indicators

of its effectiveness. Such characteristics include AC size and independence. According to the theoretical framework of agency theory, increasing the size of the AC will increase its performance in carrying out its oversight and control functions (Al Lawati, Hussainey, & Sagitova, 2021). Additionally, literature has demonstrated that a larger number of AC commissioners leads to wider access to different resources, such as auditors, legal consultants, and management (Allegrini & Greco, 2013). However, empirical research finds that AC size has a positive and significant influence on disclosure quality (Raimo, Vitolla, Marrone, & Rubino, 2021).

H2a: A larger audit committee has a positive impact on the firm's disclosure quality.

The autonomy of the AC is another significant characteristic of the AC. The presence of independent members enhances the amplification of financial information quality within the context of the AC, particularly from the theoretical of agency theory. Managers tend to be conservative when disclosing financial information, so independent members help reduce the risk of opportunistic behavior by managers and boost the quality of the reported information (Al Lawati et al., 2021).

H2b: Audit committee independence has a positive influence on the firm's disclosure quality.

B. Country-level Governance Mechanisms and Firm's Disclosure Quality

From an institutional theory perspective, the contextual environment of the country in which a firm operates affects organizational behavior (Jamali et al., 2020). Therefore, factors such as the role of law, corruption level, and political stability may impact the quality and practices of disclosure. Previous literature has argued that countries with more robust legal frameworks usually require increased transparency. This is because a stronger legal environment limits insiders' capacity to obtain private control advantages, consequently reducing their

motivation to withhold information from the company's stakeholders (Leuz, Nanda, & Wysocki, 2003). Prior empirical research has found that the role of the law has a positive impact on a firm's disclosure quality, as evidenced in the case of 1044 companies across 16 European countries (Ernstberger & Grüning, 2013). Likewise, similar results were reported in the study of Bonetti et al. (2016).

H3a: There is a positive relationship between the role of law at the country level and the firm's disclosure quality.

According to Shleifer and Vishny (1993), corruption is defined as the misuse of public authority for personal benefit. Corruption distorts economic actors' development and use of knowledge. Corruption warps the creation and utilization of information by economic actors (Svensson, 2005). There are two potential reasons why companies operating in corrupt situations may exhibit reduced levels of transparency. Firstly, disclosing broad information regarding their current and future activities may create more avenues for public officials to seek illicit gains and invite closer inspection from regulators. Furthermore, companies that operate in places characterized by corruption are more likely to engage in corrupt practices due to the pressures imposed by competition. Consequently, companies in such circumstances typically exhibit reduced levels of concern over adherence to disclosure rules (El Ghouli, Guedhami, Wei, & Zhu, 2023). Empirical research by Agyei-Mensah (2017) found a negative relationship between country-level corruption and the quality of disclosed information. They conducted their study on a sample of 174 firm-year observations from companies listed in Ghana and Botswana. They argued that firms listed in countries with lower levels of corruption tend to disclose more information and are more likely to provide high-quality, transparent information.

H3b: A higher corruption level in a country has a negative impact on the firm's disclosure quality.

Political stability is another crucial country-level

factor that can influence a company's operations. According to a study conducted by Mooneeapen, Abhayawansa, and Mamode Khan (2022), it has been argued that corporations operating in politically unstable nations are commonly regarded as being more risky and facing challenges in terms of legitimacy. This perception arises from the frequent political meddling in business affairs in such unstable countries, where companies are expected to engage in corrupt practices such as earnings management or manipulation of reports. In light of this, previous empirical research findings have indicated a positive association between political stability and disclosure quality (Yamen & Can, 2023).

H3c: There is a positive relationship between political stability and the firm's disclosure quality.

III. Methodology

A. Data and Sample Selection

The data about disclosure quality CG and control variables was obtained from the firm's annual reports. The statistics about country-level governance factors were obtained from the World Governance Index (WGI) released by the World-Bank (2023) database.

The initial sample for the study included 100 publicly listed financial firms from four countries in the MENA region: Palestine, Jordan, Kuwait, and Qatar. This sample covered the period from 2016 to 2020. After excluding companies with significant missing data, the final sample comprised 96 financial institutions operating in the banking, insurance, and other financial services sectors, as indicated in Table 1. The total number of observations in the study sample is 480 firm-year observations. However, for the analysis, we used a total of 448 observations from the 96 companies over a 5-year period (2016-2020) due to the omission of missing values.

Furthermore, the selection of these countries was driven by variations in the levels of country

Table 1. 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

* The study sample consisted of these industries listed in Qatar and Palestine. For Jordan and Kuwait, we specifically chose the top companies, respectively, based on their last-year (2020) market capitalization.

governance factors within the region. Therefore, the study included a sample from the Gulf States (such as Kuwait and Qatar) and non-Gulf countries (like Jordan and Palestine).

B. Variables

1. Disclosure Quality

The primary aim of this article is to analyze the effect of CG and governance at the country level on the quality of disclosure. Consequently, the quality of disclosure is considered the dependent variable in this article. The present investigation developed an unweighted index for evaluating the quality of disclosure. This index is based on a checklist consisting of 13 items, as presented in Table 2, which were selected from previous studies that have investigated disclosure quality in the region (Al-ahdal, Alsamhi, Tabash, & Farhan, 2020; Eriqat, Tahir, & Zulkafli, 2023) as well as taking into account the disclosure requirements. A score of one was awarded to each item if the firm satisfied the requirements associated with the item, while a score of zero was assigned if the firm did not meet the criteria. Consequently, a firm could achieve a maximum score of thirteen, indicating compliance with all thirteen examined disclosure quality items. The index was determined by dividing the acquired score by the total count of items on the checklist, which can be mathematically represented as follows:

$$Disclosure\ Quality\ index\ (DQ) = \frac{\sum_1^a X_i}{\sum_1^n X_i}$$

Where:

X_i : 1 if the item X_i disclosed, and 0 if not;

a : number of items that were disclosed;

n : the total number of items in the disclosure checklist.

2. Corporate Governance Mechanisms

The present study investigates various independent factors in CG procedures. These variables comprise board size, CEO duality, board gender diversity, audit committee size, board meetings, and audit committee independence. According to Góis (2009), the number of directors comprising the board can be seen as an indicator of board size. Makhoul et al. (2017), argue that the number of board directors may be regarded as a measure of board size (Park & Byun, 2022). The variable of CEO duality is categorized as binary, with a value of 1 denoting the situation where a single individual occupies both the CEO and chairman posts and a value of 0 indicating that distinct individuals occupy these responsibilities (Khlif et al., 2021; Yang, 2012). According to Allegrini and Greco (2013), the number of audit committee members represents the audit committee size. Audit committee independence is measured as the ratio of independent members to the overall number of AC members (Al Lawati et al., 2021).

Table 2. Disclosure Quality Items Checklist

#	Disclosure Quality Index (DQ)
1	Firms maintain an official website for the disclosure of their financial information, including financial statements and annual financial reports.
2	The firm's mission or vision statement is made publicly available.
3	The firm's financial reports adhere to accounting principles and/or international financial accounting standards (IFAS).
4	The firm has issued an annual corporate governance report.
5	Annual reports are accessible to the general public.
6	The firm discloses transactions involving related parties.
7	Corporate reports provide a comprehensive account of the firm's corporate social responsibility activities.
8	The firm releases its annual reports in the English language.
9	Details about credit ratings are provided in the firm's annual reports.
10	Any penalties, sanctions, or lawsuits involving the firm are disclosed.
11	Information concerning risk management is incorporated into the annual report.
12	Detailed meeting information is available within the corporate annual report.
13	Annual reports include information about stock prices.

3. Country-level Governance Mechanisms

Country-level governance mechanisms constitute the second group of independent variables in this research. Consistent with previous research, we utilized the role of law, corruption level, and political stability as country governance mechanisms, sourced from the World Governance Indicators (WGI) (El Ghoul et al., 2023; Yamen & Can, 2023). The WGI is a research dataset that compiles assessments of governance quality from a substantial pool of survey respondents, including enterprises, citizens, and experts, across both industrialized and developing nations. According to (World-Bank, 2023) the WGI offers a value to each governance element, ranging from -2.5 to 2.5. A score of -2.5 suggests bad governance performance, while a score of 2.5 indicates good governance performance.

4. Control Variables

The present investigation included a set of control variables. Initially, we utilized firm size as a control variable, specifically by including the logarithm of total assets. This is attributed to the argument that larger organizations own more resources and specialists, enabling them to provide high-quality

information with broader coverage (Reeb & Zhao, 2013). Firm age is another control variable used in this study, which is assessed by the duration in years from the establishment of the firm to the year under examination (Asyik, Agustia, & Muchlis, 2023). Leverage is also expected to affect disclosure quality (Ernstberger & Grüning, 2013). It is measured as the proportion of total debt in relation to total equity.

C. Empirical Model

In line with previous research (Phuong & Hung, 2020; Yamen & Can, 2023), we employed three static panel methodologies: pooled ordinary least squares (POLS), fixed effects (FE), and random effects (RE) models. The POLS approach estimates regressions with a single intercept and slope applied universally to all cross-sectional units, in our case, companies. Consequently, it does not account for individual heterogeneity. In contrast, the FE model computes common intercepts and slopes while incorporating individual-specific intercepts (i.e., for each company). FE may efficiently account for cross-sectional and temporal effects using dummy variables. The justification for employing the FE model stems from

its capacity to account for all possible unobserved attributes specific to each bank under investigation. On the other hand, the RE model postulates that the heterogeneity across individuals is stochastic and lacks correlation with the explanatory factors. Furthermore, the RE framework implies that the model is time-invariant, meaning that the error term in the present period is not associated with the error terms in previous or future periods.

$$DQ_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BM_{it} + \beta_3 G_{it} + \beta_4 CEO_{it} + \beta_5 AI_{it} + \beta_6 AC_{it} + \beta_7 FL_{it} + \beta_8 FS_{it} + \beta_9 FA_{it} + \beta_{10} ROL_{it} + \beta_{11} C_{it} + \beta_{12} PS_{it} + \varepsilon_i$$

Where:

DQ_{it} represents the level of disclosure quality exhibited by company i during the period t . The variable BS_{it} = represents the board size of a business at a certain time t . The variable BM_{it} represents the count of board meetings conducted by business i during period t . The variable G_{it} represents gender diversity for business i at time t . The term " CEO_{it} " denotes the CEO duality of business i at time t . AI_{it} denotes the level of independence of the audit committee of firm i at time t . The variable AC_{it} represents the size of the audit committee for firm i at time t . The acronym FL_{it} represents the financial leverage of business i at time t . The variable FS_{it} represents the size of firm i at time t . The notation FA_{it} represents the age of firm i at time t . The variable ROL_{it} denotes the function of law inside the nation i during the period t . The variable C_{it} represents the degree of corruption present in nation i at a given period t . Finally, the variable PS_{it} represents the level of political stability in nation i at time t . The symbol β_0 represents the intercept term in the equation, whereas β_1 through β_8 correspond to the coefficients associated with the independent variables. The symbol ε_i represents the error term in the given equation.

IV. Results and Discussion

A. Descriptive Statistics and Correlation Matrix

Table 3 presents the descriptive statistics for the variables in the study. These statistics offer an overview of corporate governance, country-level governance, and control variables. The examined financial firms had an average of around 8.68 board members, with a standard deviation of 2.78. These firms frequently attend board meetings, as shown by the mean number of meetings (7.17) and the standard deviation (3.25). Based on the data collected from the financial firms under examination, it is evident that these firms demonstrate a notable commitment to CG regulations that pertain to the segregation of the CEO and Chairman of the Board positions. This is substantiated by the mean value of CEO duality, which stands at 0.04, accompanied by a standard deviation of 0.20. The statistical measures of the mean and standard deviation for gender diversity, specifically the percentage of female directors concerning all board members, are 0.05 and 0.09, respectively. These values indicate a relatively low level of female participation in senior management positions.

Regarding the audit committee, the statistics show that the mean value of the audit committee independence is 0.59, with a standard deviation of 0.32. This suggests that around 66% of the members employed on the audit committee exhibit independence. The mean value of the audit committee size is 3.38, with a standard deviation of 0.84. However, the number of observations for both the audit committee's independence and size is 449 due to the missing data. This may be attributed to the fact that the existing legal and regulatory policies in the region lack clear governance codes for the audit committee, especially for non-bank organizations (Salloum, Azzi, & Gebrayel, 2014).

In terms of the country-level governance variables, Table 3 indicates that the mean value and standard deviation of the role of law are 0.22 and 0.35,

respectively. Regarding the corruption level, the mean value is 0.09, with a standard deviation of 0.38. Finally, political stability has a mean value and standard deviation of -0.25 and 0.75, respectively. It is worth noting that the standard deviations of all governance variables at the country level exhibited values that were greater than the mean. This finding demonstrates significant variation in country-level governance factors among the nations included in the sample. However, Table 3 also offers the descriptive statistics for the control variables utilized in the study.

We performed a pairwise correlation analysis on the independent variables to look for any potential multicollinearity. According to Table 4, the results show that all variables have low correlations of less than 0.80, indicating that multicollinearity is not an issue in the study (Kennedy, 2008).

B. Regression Results

The regression findings in Table 5 demonstrate the results on the relationship between corporate and country-level governance mechanisms and a firm's disclosure quality. Fixed effect (FE), random effect

(RE), and pooled ordinary least squares (POLS) are used to estimate the financial disclosure quality regression model. In the first stage, the Breusch and Pagan LM test compared the better model between the POLS and REM, and the result was statistically significant, indicating that the POLS model is refused

Table 3. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
BS	480	8.68	2.78	0	19
BM	480	7.17	3.25	0	23
CEO	480	0.04	0.20	0	1
G	464	0.05	0.09	0	0
AI	449	0.59	0.32	0	1
AC	449	3.38	0.84	1	8
ROL	480	0.22	0.35	-0.49	1.00
C	480	0.09	0.38	-0.56	0.90
PS	480	-0.25	0.75	-2.01	0.90
FA	480	31.38	16.68	6	90
FL	480	3.10	3.27	0.02	19.97
FS	480	8.85	1.02	6.98	11.44

Note: BS represents board size. BM stands for board meetings. CEO denotes CEO duality. G represents board gender diversity. AI is the audit committee's independence. AC represents the audit committee size. ROL indicates the role of the law. C denotes corruption. PS stands for political stability. FA represents firm age. FL represents financial leverage. FS denotes firm size.

Table 4. Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) BS	1.000											
(2) BM	0.113	1.000										
(3) CEO	-0.069	-0.123	1.000									
(4) G	0.172	0.182	0.031	1.000								
(5) AI	0.153	-0.148	0.070	-0.033	1.000							
(6) AC	0.239	0.148	-0.035	0.136	-0.143	1.000						
(7) FA	0.302	0.061	-0.084	0.127	-0.084	0.173	1.000					
(8) FL	0.428	0.141	-0.016	0.187	0.156	0.202	0.388	1.000				
(9) FS	0.311	0.228	-0.122	-0.012	-0.118	0.170	0.489	0.571	1.000			
(10) ROL	-0.052	0.038	-0.142	-0.198	-0.131	-0.020	0.020	-0.155	0.246	1.000		
(11) C	0.143	-0.125	-0.016	-0.171	0.081	-0.052	-0.108	-0.122	0.104	0.202	1.000	
(12) PS	-0.210	0.141	-0.190	-0.195	-0.268	-0.006	0.095	-0.156	0.317	0.503	0.570	1.000

Note: BS represents board size. BM stands for board meetings. CEO denotes CEO duality. G represents board gender diversity. AI is the audit committee's independence. AC represents the audit committee size. FA represents firm age. FL represents financial leverage. FS denotes firm size. ROL indicates the role of the law. C denotes corruption. PS stands for political stability.

and the REM is the better in this comparison. Subsequently, the Hausman test estimates the better model between FEM and REM. The result was statistically significant, indicating that the REM is refused and the FEM is the preferred model. Consequently, the FE model is used in this paper to analyze the findings.

The findings show that board size has a positive and statistically significant impact on the firm's disclosure quality ($p < 0.01$). This indicates that financial institutions with larger boards often have better disclosure practices. This outcome is consistent with prior empirical research (Góis, 2009; Htay et al., 2013), which claimed that larger boards might increase supervision, bring in a variety of abilities and experiences, and subsequently raise the caliber of disclosure. Furthermore, these results support the study's hypothesis (H1a).

Additional findings revealed a positive and statistically significant relationship between board meetings and the firm's disclosure quality ($p < 0.05$). These results imply that more frequent board meetings contribute to the increased effectiveness of the board and the heightened oversight of the firm's operations, including its disclosure practices. This result supports the outcomes of the previous studies (Asmar et al., 2018; Laksmana, 2008) and the current study hypothesis (H1b).

The study's results also indicated a positive and statistically significant relationship between the size of the audit committee and the quality of the firm's disclosure ($p < 0.05$). This finding supports the assertion that having more directors on the audit committee enhances the variety of expertise, knowledge, and capacity to expand the audit scope (Al Lawati et al., 2021). Consequently, the existence of a larger audit committee is more inclined to facilitate the identification and resolution of reporting process issues, ultimately resulting in enhanced disclosure of higher quality (Li, Mangena, & Pike, 2012). Furthermore, this finding is consistent with the study's hypothesis (H2a). While further results indicate no statistically significant relationship between gender, CEO independence, audit committee independence,

or disclosure quality concerning other CG characteristics.

In terms of the country-level governance mechanisms, the results indicate a positive statistically significant relationship between the role of law and the firm's disclosure quality ($p < 0.01$). This implies that financial institutions are inclined to adopt better disclosure practices while conducting business in a country with solid legal and regulatory frameworks. This conclusion is consistent with the outcomes of past studies (Ernstberger & Grüning, 2013), and supports the study's hypothesis (H3a). Further findings revealed a negative association between the country's corruption levels and the firm's disclosure quality ($p < 0.05$). This finding provides evidence to support the hypothesis that corruption can affect company policies and outcomes through its control over government subsidies, contracts, licences, permits, regulations, and pricing manipulation. These governmental actions have the potential to facilitate the solicitation of bribes by corrupt officials from vulnerable businesses. Hence, it is plausible for companies to partake in illicit practices to sustain competitiveness within a corrupt milieu, such as manipulating reporting (El Ghoul et al., 2023). Furthermore, the results support the study's hypothesis (H3b).

Additionally, the findings showed that the country's political stability has a positive and statistically significant impact on the firm's disclosure quality ($p < 0.05$). This implies that businesses operating in politically stable nations are more attractive to investors, able to acquire funding, and consequently more eager to please investors with high-quality disclosures. On the other hand, businesses in nations with uncertain political climates frequently experience government meddling in daily operations. However, this outcome supports the findings of earlier studies (Yamen & Can, 2023), and the research hypothesis (H3c).

Regarding the control variables used in this study, the results showed that firm size positively and significantly influences the firm's disclosure quality ($p < 0.01$). Larger firms, as expected, have greater financial and human resources, allowing them to

provide more information. Additionally, the data revealed that business age and leverage had no statistically significant effects on the firm's disclosure quality.

However, as we mentioned earlier in the sample section, the number of observations employed to run the analysis was 448, as displayed in Table 5. This

is attributed to the impact of the omission of missing values from the analysis, particularly regarding the variables of AC size, AC independence, and gender, as previously shown in Table 3: descriptive statistics.

Table 5. Regression Results

VARIABLES	(1) POLS	(2) FEM	(3) REM
BS	0.0340*** (0.00449)	0.0111*** (0.00399)	0.0199*** (0.00478)
BM	0.00687** (0.00287)	0.00389** (0.00172)	0.00366** (0.00181)
G	0.139 (0.0951)	0.0185 (0.0754)	0.185** (0.0898)
CEO	0.0162 (0.0386)	0.0165 (0.0180)	0.0307* (0.0159)
AI	0.0528* (0.0275)	0.0225 (0.0182)	0.0309 (0.0197)
AC	0.0346*** (0.00975)	0.0129** (0.00638)	0.0186*** (0.00708)
ROL	0.254** (0.106)	0.158*** (0.0278)	0.0729* (0.0391)
C	0.0641 (0.0535)	-0.0912** (0.0367)	-0.00387 (0.0343)
PS	-0.313*** (0.0367)	0.0894** (0.0384)	-0.113*** (0.0261)
FL	-0.000849 (0.00333)	-0.000957 (0.00209)	0.00856*** (0.00328)
FS	-0.00488 (0.0114)	0.114*** (0.0393)	-0.0250 (0.0224)
FA	0.00267*** (0.000566)	0.00233 (0.00141)	0.00387*** (0.00127)
Constant	-0.0372 (0.103)	-0.621* (0.348)	0.379** (0.193)
Observations	448	448	448
R-squared	0.637	0.200	
Number of FirmID		96	96
Breusch-Pagan LM test (POLS vs REM)			534.25*** (0.000)
Hausman test (FEM vs REM)		190.83*** (0.000)	

Notes: This table presents the regression results of the pooled OLS, fixed effect (FE), and random effect (RE) models for the disclosure quality (DQ) index. The dependent variable is the disclosure quality index. BS represents board size. BM stands for board meetings. G represents board gender diversity. CEO denotes CEO duality. AI is the audit committee's independence. AC represents the audit committee size. ROL indicates the role of the law. C denotes corruption. PS stands for political stability. FL represents financial leverage. FS denotes firm size. FA represents firm age. Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

V. Recommendations and Implications

The study's findings offer several important recommendations and implications that can provide guidance to policymakers, managers, investors, and other stakeholders in financial firms within the MENA region. First, policymakers or corporate governance regulatory bodies in the MENA region should work on strengthening corporate governance regulations and guidelines to encourage companies to maintain effective board sizes, conduct regular board meetings, and establish robust audit committees. Encouraging the implementation of these governance practices can lead to improved disclosure quality.

Second, to foster better disclosure quality among MENA financial firms, authorities and policymakers are recommended to focus on improving legal frameworks and enforcement mechanisms within their countries. A robust legal system can provide the necessary support and incentives for firms to disclose accurate and comprehensive information. Third, policymakers should also aim to enhance political stability within the region, which can positively impact the disclosure quality of financial firms. Political stability can provide a more conducive environment for companies to report their financial and non-financial information transparently. Finally, it is recommended for policymakers in the region to implement effective anti-corruption measures; fostering transparency in government and firms alike, as well as providing whistleblower protection, can be part of these efforts.

Improved disclosure quality can have various implications for different stakeholders in MENA financial firms. Enhancing disclosure quality can boost investor confidence in the region's financial markets, attracting both domestic and foreign investments, which can contribute to economic growth and development. Moreover, it can foster a more competitive business environment, particularly in the MENA region, where bank financing dominates the financial resources landscape (OECD, 2019). This heightened competition can benefit consumers,

investors, and the overall market. Furthermore, enhancing disclosure quality is paramount for maintaining financial stability since it enables the region's regulators and policymakers to make informed decisions that support the stability of the financial sector.

VI. Conclusion

The study aims to examine the impact of corporate- and country-level governance mechanisms on a firm's disclosure quality. The study utilized a sample of 96 financial firms listed on the stock exchanges of four countries in the MENA region: Palestine, Jordan, Qatar, and Kuwait. The primary findings of the study indicate that corporate governance aspects such as board size, board meetings, and audit committee size have a positive impact on disclosure quality. Furthermore, in terms of country-level governance, the results reveal that the role of law positively affects the firm's disclosure quality, while political stability and corruption level have a negative influence on disclosure quality.

As mentioned earlier, the findings of this study hold significant importance for a wide range of stakeholders, including policymakers, managers, politicians, investors, and academics. They suggest that promoting the good practices of corporate governance, specifically regarding board structure and audit committee structure, can enhance the quality of the firm's disclosure. Moreover, the findings demonstrate the importance of country-level governance mechanisms in influencing a firm's disclosure practices. Therefore, managers, policymakers, and stakeholders must advocate for robust corporate and country-level governance frameworks to establish a transparent business environment.

Theoretically, these findings align with agency theory and institutional theory. Firstly, they highlight how corporate governance mechanisms contribute to reducing agency costs, curbing managerial

opportunism, and mitigating information asymmetry. Additionally, the results about country-level governance mechanisms support the institutional theory's perspective, emphasizing how the contextual environment in which a company operates can influence its behavior.

This study has encountered certain limitations, providing an opportunity for future research. Firstly, the study faced limitations concerning data availability. Missing data hindered the study's ability to expand its sample size. In addition, all firm-level information had to be manually extracted from company annual reports, which restricted the authors' capacity to take into account more firms and other nations. As a result, the findings of this study cannot be extrapolated to other industries or countries in the region. Thus, it would be interesting for further research to investigate these relations in the case of different samples and countries in the MENA region.

Second, the study's primary goal was to determine how corporate and country-level governance mechanisms influence a firm's disclosure quality. Future research areas may incorporate additional variables, such as the firm's performance and cultural elements, that may significantly affect disclosure quality.

Conflicts of Interest

The authors declare no conflict of interest.

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