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Corporate Governance and Obfuscation in Chairmen's Letters: The Case of MENA Banks

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Corporate Governance and Obfuscation in Chairmen's Letters: The Case of MENA Banks

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Abstract: The readability (RDB) of annual reports (AR) plays a crucial role in determining the effectiveness of disclosure of information to interested parties, particularly investors. Given that investors rely on the financial information provided in AR, the chairman's letter serves as a key communication tool and is the most extensively read section of the report. Consequently, companies are under pressure to provide understandable AR that can be easily interpreted by investors. Nevertheless, managers sometimes obscure such disclosures in an attempt to bury negative information and hide their own behavior. Drawing from the "managerial obfuscation hypothesis", this study investigated how the corporate governance (CG) structures affect the RDB of AR of a sample of 95 banks across seven countries in the MENA region from 2018 to 2022. The findings revealed that board size, frequency of board meetings, and ownership concentration significantly affect the RDB of AR. Additionally, board independence and gender diversity have a significant negative effect on AR RDB. Conversely, the study found that the presence of role duality within the board had an insignificant effect on AR RDB. As a result, this study recommends enhancing the CG structures to enhance the clarity of banks' reports and boost investor trust.

Keywords: annual report; chairman's letter; corporate governance; MENA banks; readability

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1. Introduction

Recent scandals and corporate failures, such as Enron, Parmalat, WorldCom, and others, have significantly affected investor confidence in financial reporting (Mahboub et al., 2016). Consequently, the prominence of CG and the need for enhanced transparency have emerged as crucial factors in effectively managing and controlling firms' activities, including disclosure practices (Mohammadi and Naghshbandi, 2019; Mahboub et al., 2017). While various types of disclosures, both narrative and non- narrative, serve as means of communication with corporate stakeholders, the utilization of narrative disclosure (ND) has become a prevalent trend in contemporary annual reporting, employed by managers to convey information (Leite, 2021). In light of this, the present study focuses on a specific type of disclosure found in AR, namely the chairman's letter (CL).

The CL, which has gained increasing attention in recent years, holds a prominent position within the AR (Mahboub et al., 2016). It provides a concise overview of the events that took place during the previous financial year and concludes by offering a brief analysis of the future prospects of the company (Wills, 2009; Yuthas et al., 2002). Importantly, the inclusion of content in the CL is voluntary and not regulated, with the auditor's role limited to ensuring that the information contained in CL is consistent with the information disclosed in the financial statements (Clatworthy and Jones, 2003). There are no specific requirements regarding the content that should be included in this section of the AR (Leite, 2021). Consequently, it offers management an excellent opportunity to shape external perceptions of the company without being overly concerned about regulatory consequences (Hooghiemstra, 2010). Notably, the CL is one of the most widely read sections of the AR (Mahboub et al., 2017; Cen and Ca, 2015; Clatworthy and Jones, 2006). It is widely regarded as one of the most impactful sources of information that captivate the attention of financial analysts and institutional investors alike (Leite, 2021).

Regarding the utilization of CL, the available evidence suggests that financial statement users make use of the information enclosed within these letters and that the letters themselves provide valuable information. Previous research has indicated that CL are widely employed in the decision-making processes of investors (Hooghiemstra, 2010). For example, Kaplan et al. (1990) demonstrated the significant impact of CL on subjects' perceptions of a company's future prospects, as well as their likelihood of engaging in actions such as tendering a proxy to management, purchasing additional stock, and retaining existing stock. Tennyson et al. (1990) discovered that the qualitative information found in CL, along with the "management discussion and analysis" (MD&A), proved to be useful in predicting bankruptcy, surpassing the information provided solely by financial data. Fulkerson (1996) highlighted the high level of interest exhibited by portfolio managers and individual investors in CL as a source of investment information. Abrahamson and Amir (1996) found that market participants rely on CL information to evaluate the quality of a company's earnings. Bartlett and Chandler (1997) revealed that investors incorporate CL into their decision-making processes. Baird and Zelin (2000) discovered that the sequence of positive and negative information within the CL had a substantial impact on the decision-making process of investors. Breton and Taffler (2001) revealed that analysts depended on non-financial, qualitative, soft, and compelling information found in the CL when formulating stock recommendations. Beynon-Davies et al. (2004) demonstrated that CL contain information that can predict both a company's future financial performance and the likelihood of corporate failure. Rimmel and Jonall (2010) acknowledged that managers utilize CL as a means of establishing legitimacy and influencing readers' perceptions of the company's excellence and future viability. Amernic et al. (2010) illustrated the existence of impression management in CL of a mortgage firm that declared bankruptcy in 2007. Patelli and Pedrini (2014) found that companies with strong historical and projected financial results typically exhibit higher levels of optimism in their corporate disclosures, while also maintaining transparency during challenging macroeconomic environments.

Over the past few years, the significance of ND in the CL has increased (Wang, 2023; Jones and Smith, 2014). Previous research suggests that ND should serve as an essential means of communication to ensure that users of AR can fully grasp the intended message provided by the preparers of these AR (Smith and Taffler, 1992). However, despite this notion, there has been considerable debate regarding the efficacy of disclosing pertinent information to interested parties in the CL. This is primarily owing to the growing difficulty of accounting regulations and the technical language used in financial information (Guay et al., 2016). Consequently, these factors may contribute to the presence of intricate and incomprehensible language within this section of the AR. As a result, the inability to effectively convey the desired information has become an interesting issue (Ezat, 2019). Moreover, the RDB of these reports, which refers to the ease with which a text can be quickly comprehend, understood, and memorized, has become a challenging issue. This is predominantly significant considering the current surge in information volume and superficial network reading (Luo et al., 2018; Courtis, 1995).

Therefore, ensuring the RDB of CL is crucial for maintaining good CG. Numerous studies have been conducted to address this issue. Several studies have shown a significant association between the low RDB of AR and the low performance of companies (Subramanian et al., 1993; Smith and Taffler, 1992). It has been revealed that management consciously or subconsciously attempts to obscure bad news by using obfuscation techniques or by making the text in AR difficult to read. Eugene Baker and Kare (1992) discovered a significant association between the Flesch score (a measure of RDB) and return on equity (ROE). Smith and Taffler (1992) concluded that low RDB is linked to poor performance, while high RDB is associated with financial success. Subramanian et al. (1993) found that the AR of well- performing companies are significantly easier to read in comparison to those of underperforming companies. Given that many researchers have observed that poor performance tends to make AR more challenging for users to read, this has implications for CG.

As a result, the RDB of ND documents has garnered attention from both scholars and regulators (Luo et al., 2018). However, most RDB studies have been carried out in Western contexts, with few examining the RDB of disclosure reports in developing countries (Ezat, 2019; Luo et al., 2018).

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Moreover, the majority of these previous studies have concentrated on the economic consequences of AR RDB. This raises the question of whether and how CG influences ND RDB, but very limited studies, if any, have investigated this issue (Luo et al., 2018). Therefore, the main objective of this study is to examine whether CG structures "board size, role duality, board independence, board meetings, board gender diversity, and ownership concentration" have an impact on the RDB of CL in banks operating in the MENA region. The banking sector in the MENA region holds significant importance as it plays a dominant role in the financial system of the region, contributing to its economic growth (Mahboub and Fawaz, 2022). Moreover, the narrative section of major banks in the MENA region have been observed to be complex and challenging to decipher (Mahboub et al., 2016). Hence, since there are no existing studies conducted that have explored the impact of CG on the RDB of AR in MENA banks, this study aims to promote horizontal and longitudinal comparisons with other international studies.

The study makes a noteworthy contribution to the current body of knowledge in two main ways. While previous studies on RDB have primarily focused on documents in English from Western countries, this study will focus on seven Arab countries, including "Egypt, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia, and the United Arab Emirates". This study stands out as one of the few that takes several countries in the MENA region to examining CG structures and RDB. By doing so, it complements earlier comparative studies that have looked at measurement and disclosure practices. Another key contribution of this study is its exploration of the impact of CG structures on RDB levels, a topic that has received less attention in previous RDB studies. As the majority of RDB studies examine the relationship between company characteristic variables and the RDB level of AR. Therefore, this study seeks to address this gap by looking at this relationship within the context of the MENA region.

This study is organized as follows: the second section outlines the theoretical framework and provides concise literature review on the relationship between CG structures and RDB, along with the hypotheses to be tested. The third section details the research methodology employed in this study. The fourth section delves into the interpretation and analysis of the findings. The study's conclusions are presented in the fifth and final section.

2. Theoretical Framework and Hypotheses Development

Financial statements are crucial sources of information for decision-making in the capital market (Etuk and Akpan, 2023). It is essential that this financial information is easily comprehensible (Hasan et al., 2017). However, some studies have shown that not all investors are able to quickly grasp AR owing to the technical terminology and intricacy of accounting rules (Guay et al., 2016; Kumar, 2014). Previous research has suggested that managers may intentionally make AR difficult to understand, especially when the company is facing financial difficulties, in order to convey a biased positive image (Gosselin et al., 2021). Effective CG has been shown to limit such opportunistic behavior by managers (DeBoskey et al., 2019). Therefore, studying the impact of CG structures on the RDB of AR is a crucial topic to examine, as it affects the effectiveness of communicating information to users of AR.

Consequently, the complexity of the ND of the AR has garnered significant attention from scholars, policymakers, and practitioners. This is primarily due to its crucial role in conveying the financial and non-financial performance of a firm to its shareholders (Bushee et al., 2018). In light of this, the literature has put forth various theories to elucidate the motivations behind managers' decisions to make AR more or less readable. One such theory is the "Signaling Theory," which posits that RDB serves as a signal employed by well-performing companies with substantial profits. Conversely, underperforming companies tend to obfuscate unfavorable information and make their AR more challenging to comprehend and interpret (Aldoseri and Melegy, 2023). Specifically, companies may utilize the RDB of their ND to signal a particular situation by concealing undesirable occurrences that could potentially affect their competitive position (Ezat, 2019).

Another theory, the "Agency Theory," suggests that increased "agency problems" prompt managers to enhance the disclosure of non-financial information, making it more understandable and

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readable (Aldoseri and Melegy, 2023). However, the textual structure of companies' reports, according to agency theory, may exhibit complex language necessary to disclose intricate transactions and events. This can create information asymmetry issues as readers struggle to comprehend the content (Ezat, 2019). In contrast, the "Legitimacy Theory" proposes that the RDB of the AR serves to legitimize a company's activities and cultivate a perception of social responsibility within the community (Aldoseri and Melegy, 2023). Additionally, the legitimacy theory suggests that managers utilize the content of the AR to secure stakeholders' approval. By producing readable AR, firms can uphold or restore their legitimacy, thereby mitigating information asymmetry and narrowing the legitimacy gap (N'guessan Pierre, 2022).

The current body of literature indicates an increasing fascination with the association between CG and the RDB of AR. Most previous studies exploring the link between CG and RDB have found that improved CG practices tend to result in enhanced RDB (Prusty and Kumar, 2018). This study provides a more detailed analysis of this relationship by considering various CG structures such as "board size, role duality, board independence, board meetings, board gender diversity, and ownership concentration". These structures are deemed crucial in comprehending the association between CG and RDB.

2.1. Board Size

It is widely acknowledged that the size of the board (BS) is a critical internal component of CG and plays a substantial role in the management of the firm (Isik and Ince, 2016). Boards are responsible for making final decisions on what information should be communicated to external stakeholders through AR (Dalwai et al., 2023). However, there are differing viewpoints in the literature regarding the optimal size of the board. According to the "resource dependence theory", a larger board is expected to enhance monitoring, reduce managerial opportunism, and promote greater disclosure in AR (Kolsi, 2017). However, "agency theory" suggests that larger boards may lead to less efficient control over company activities, hindering improvements in the quality of voluntary information disclosure (Navarro and Urquiza, 2015). As a result, studies investigating the association between BS and the RDB of AR have yielded mixed results. For example, Ginesti et al. (2017) did not find evidence supporting the impact of BS on the RDB of MD&A in Italy. Similarly, Ezat (2019) did not find evidence approving the impact of BS on the RDB of board reports in the Egyptian context. Additionally, Dalwai et al. (2023) discovered no significant association between BS and RDB in the financial sector, including finance, insurance, and investment subsectors. However, BS was found to have a negative association with Flesch RDB in the banking sector in Oman. Ginesti et al. (2018) further show that BS is significantly and negatively correlated with the Fog index, indicating that increased participation of board members enhances information transparency. This is because a greater number of directors can bring more experience, expertise and skills to the board, potentially strengthening control mechanisms to safeguard shareholders' interests and promoting transparent AR disclosure to stakeholders (Chithambo and Tauringana, 2017). Nonetheless, Etuk and Akpan (2023) provided evidence that a significant increase in the BS can enhance the RDB of AR for oil and gas companies listed in Nigeria. Based on these inconclusive results, it is hypothesized that the influence of the BS on the RDB of AR can be summarized as follows:

H1. There is a significant impact of board size on the readability of annual report.

2.2. Board Meetings

Board meetings (BM) serve as a platform for discussing various aspects and concerns related to the organization with the board of director (BOD), leading to informed decision-making (Kakanda et al., 2017). While some argue that a high frequency of meetings may indicate inefficiency among directors (Vafeas, 1999), others suggest that a greater number of meetings can enhance oversight of business operations and increase the likelihood of voluntary disclosure (Lipton and Lorsch, 1992). Despite this, research on the relationship between BM and CG has yielded mixed results. For example, Prusty and Kumar (2018) found a significant association between the RDB of business responsibility reports and BM in India. Conversely, Ezat (2019) reported a negative correlation

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between the frequency of BM and RDB scores, indicating that companies listed on EGX100 with more frequent BM tend to have more readable AR. This negative relationship can be explained by "agency theory", as increased BM can enhance the board's monitoring of management and facilitate clearer disclosure of information. However, Astari et al. (2020) found that the frequency of BM does not significantly impact the RDB of AR, as these meetings cover various aspects beyond just the AR. Additionally, Dalwai et al. (2021) discovered a weakly positive correlation between Flesch Kincaid RDB and BM in Italy. Therefore, the influence of BM on the RDB of AR remains a subject of hypothesis and further investigation. Based on these mixed results, it is postulated that the influence of BM on the RDB of AR can be postulated as follows:

H2. There is a significant impact of board meetings on the readability of annual reports.

2.3. Board Independence

Having independent directors who are not affiliated with the company is of utmost importance (Dalwai et al., 2023). Advocates of "agency theory" argue that increasing the number of "non-executive directors" (NE) on the board is advantageous in protecting the interests of stakeholders (Forker, 1992). Previous research in CG suggests that an independent board effectively monitors and ensures more disclosures and greater transparency through increased monitoring (improvement of disclosure hypothesis) (Goh et al., 2016). However, some theoretical studies raise concerns about the effectiveness of monitoring by an independent board in improving disclosure quality (Adams and Ferreira, 2007). These studies propose that independent boards may not necessarily encourage greater disclosure quality, as managers may obscure information to avoid scrutiny from the board (avoidance of monitoring hypothesis) (Rahman and Kabir, 2023). The relationship between board independence (BI) and RDB of AR remains unclear based on prior literature. For example, Ezat (2019) did not find empirical evidence for the impact of NE members on the RDB level of board reports in the Egyptian context. However, Gosselin et al. (2021) demonstrated a positive and significant association between BI and the FOG index. Rahman and Kabir (2023) found that BI decreases the RDB of AR, aligning with the notion of managers avoiding costly board monitoring. This result was confirmed by Dalwai et al. (2023), who showed a statistically significant negative correlation between BI and the Flesch RDB index for the financial sector and bank subsector. This finding contradicts the previous study by Harjoto et al. (2021), which reported that BI enhances the RDB of corporate social responsibility (CSR) reports. Based on these contradictory results, the impact of BI on the RDB of AR is hypothesized as follows:

H3. There is a significant impact of board independence on the readability of annual reports.

2.4. Board Gender Diversity

Gender diversity (GD) is an integral part of CG and cannot be separated from it. It is a well-established fact that every company has both male and female leaders in various positions (Shauki and Oktavini, 2022). Scholars have employed different theories to shed light on how the presence of female directors influence the quality of financial reporting (Kılıç and Kuzey, 2016). From the perspective of "agency theory", female directors play a beneficial role in the CG system. They are known for their diligence, active participation in board meetings, and a tendency to be less assertive and more risk-averse (Ho et al., 2015; Adams and Ferreira, 2009; Huse and Grethe Solberg, 2006). On the other hand, "resource dependency theory" suggests that having female representation on the board can bring valuable advice, enhance the legitimacy of organizational practices, and open up new channels for communication and organizational improvement (Hillman et al., 2007). However, "social psychological theory" presents a contrasting viewpoint. According to this theory, directors who hold a strong position are more likely to exert influence over the decision-making process of the entire board, thereby potentially limiting the actions of a more gender-diverse board (Mateos de Cabo et al., 2012). Despite the growing interest in the relationship between board GD and financial reporting quality, there is limited knowledge regarding the impact of GD on the RDB of corporate reporting. For example, Ginesti et al. (2018) discovered that female board participation has a positive effect on disclosure RDB in companies with small boardroom connections, but the opposite effect in companies

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with large boardroom connections. Nadeem (2022) validated this result and identified a significant positive influence of board GD on the RDB of 10-K reports. This suggests that having female directors is linked to enhance RDB. The findings align with theoretical expectations that female directors advance the interests of various stakeholders by enhancing firms' communication with the capital market. Given that the clarity of information in 10-K reports is crucial for stakeholder decision-making, especially for individual investors, female directors, who prioritize the concerns of others and exhibit higher ethical standards, are connected with improved RDB of 10-K reports. Moreover, Ben-Amar et al. (2023) discovered that GD in the board improves the RDB of ND and is correlated with a less optimistic, litigious, and ambiguous tone in AR. However, Shauki and Oktavini (2022) demonstrated that the presence of female directors in the organization did not affect the RDB of AR in Indonesia. Based on these opposing results, the impact of board GD on the RDB of AR is hypothesized as follows:

H4. There is a significant impact of board gender diversity on the readability of annual reports.

2.5. Role Duality

Another characteristic of strong CG is the separation of the roles of the chief executive officer (CEO) and board chairperson (Boateng et al., 2022). CEO duality occurs when one individual simultaneously holds both positions within the same company (Barnawi and Abdullah, 2023). According to "agency theory", organizations with CEO duality tend to concentrate power in a single individual, which can limit the board's ability to effectively monitor and govern the company functions (Fama and Jensen, 1983). Consequently, CEO duality has been examined as a factor influencing the RDB of AR. However, existing empirical studies on CEO duality have produced inconclusive results. For instance, Ginesti et al. (2017) found that firms where the chairman and CEO roles are combined in one person tend to have lower levels of AR RDB. This finding aligns with previous research suggesting that CEO duality indicates weaker board oversight, leading to reduced transparency in corporate disclosures (Gul and Leung, 2004). Furthermore, Roiston and Harymawan (2022) discovered a significant positive relationship between CEOs holding multiple positions in subsidiaries and the RDB of the company's financial statements. In contrast, Ezat (2019) indicated that the division of responsibilities between the chairman and CEO has a significant correlation with the RDB of board reports in EGX100 companies, suggesting that companies with a separate chairman and CEO tend to produce more comprehensible reports. This outcome aligns with "agency theory", which advocates for the segregation of these roles to uphold the independence of the board. Sun et al. (2023) corroborated this finding and demonstrated that dual roles enhance the RDB of AR. Additionally, Rahman and Kabir (2023) contended that organizations where the CEO also serves as the board chair experience an enhancement in AR RDB. This observation aligns with the efficiency theory of CEO duality. Based on these inconsistent results, the impact of role duality on AR RDB is hypothesized as follows:

H5. There is a significant impact of role duality on the readability of annual reports.

2.6. Ownership Concentration

Ownership concentration (OC) pertains to the percentage of shares owned by the principal shareholders of a corporation (Ahmed et al., 2012). It plays a critical role in determining the distribution of power within the firm (Thomsen and Pedersen, 2000) and influences the composition of the BOD (Dalwai et al., 2023). Consequently, the ownership structure (OS), as a part of the CG mechanism, has garnered significant attention in relation to its impact on voluntary disclosure. Drawing on "agency theory", Morck (2000) posits that when a company has broadly dispersed ownership, a "free rider problem" arises due to the lack of means and motives for dispersed owners to address managerial agency problems. This, in turn, results in an increase in agency costs (Fama and Jensen, 1983). To mitigate these costs, firms tend to disclose further information (Garcia-Meca and Sánchez-Ballesta, 2010). Conversely, a high degree of OC may give rise to agency conflicts between majority and minority shareholders (Fama and Jensen, 1983). Consequently, firms with controlling shareholders may perceive a reduced need for superior - quality public disclosures and financial

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reporting to effectively monitor management. This scenario gives rise to an increased possibility of minority shareholders being expropriated and important information being withheld thereafter. Considering the impact of OS on the RDB of AR, empirical findings are varied and contradictory. For example, Kumar (2014) demonstrated that companies with a more diverse OS produce AR that are easier to read for Asian companies listed in the United States. This finding is supported by Dalwai et al. (2023), who found that dispersed ownership leads to more readable reports specifically for banks. However, Khan et al. (2017) presented evidence showing that the concentration of ownership is positively correlated with RDB, aligning with the arguments of "agency theory". Velte (2018) also discovered supporting evidence for the notion that OC can contribute to improved RDB of integrated reports. Similarly, Melón-Izco et al. (2021) obtained the same result and confirmed that there is a positive and statistically significant association between OS and RDB. On the other hand, Etuk and Akpan (2023) provided evidence suggesting that OC has an insignificant effect on the RDB of AR for listed oil and gas firms in Nigeria. Their results indicated that OC does not significantly decrease the page length of AR for these firms. Based on these varying findings, it is hypothesized that OC has an impact on the RDB of AR in the following manner:

H6. There is a significant impact of ownership concentration on the readability of annual reports.

3. Research Methodology

3.1. Research Sample and Data Collection

The research sample comprises 95 banks from seven distinct countries in the MENA region, namely "Egypt, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia, and the United Arab Emirates", over a five-year period from 2018 to 2022 (Table 1). This time period has been chosen on the basis of data availability. The selection of sample banks was based on the criterion that the bank had published AR in the English language on its websites consistently for five years. The data related to CG variables were obtained from the CG reports and websites of each bank. Additionally, the data concerning RDB were extracted from the CL in the AR of each bank. Furthermore, financial data were gathered from the financial statements section of the AR of each bank.

Table 1. Sample Size.

	Country	Number of Banks	Number of AR
1	Egypt	18	90
2	Jordan	11	55
3	Kuwait	10	50
4	Lebanon	15	75
5	Qatar	11	55
6	Saudi Arabia	14	70
7	United Arab Emirates	16	80
	Total	**95**	**475**

Source: Developed by the Researcher.

3.2. Measurement of Variables

Six variables related to CG are utilized to investigate the potential influence of the CG mechanism on the level of RDB. Furthermore, this research incorporates three control variables that are widely acknowledged in the literature and are commonly examined due to their significant association with RDB. Table 2 provides a comprehensive overview of the variables and their corresponding proxies.

Table 2. Measurement of Variables.

Variable	Abb.	Measurement	Reference
		Dependent Variable	

Readability	RDB	"Flesh readability scores: the chairman 's letter of each bank was copied and then pasted it in Microsoft Word 2016 to get the readability index. Once the score has been determined, it is compared with a predetermined table (Appendix 1), which provides an explanation of its readability".	Mahboub et al. (2017)
		Independent Variables	
Board Size	BS	"The total number of board members"	Muchemwa et al. (2016)
Board Meetings	BM	"The total number of board meetings"	Kyei et al. (2022)
Board Independence	BI	"The ratio of non-executive members to total members on the board"	Muchemwa et al. (2016)
Board Gender Diversity	BGD	"Dummy variable equal to 1 if a corporate board has female directors and 0 otherwise"	Jun et al. (2023)
Role Duality	RD	"Dummy variable equal to 1 if the chairman is the same person as the CEO, 0 otherwise"	Aktas et al. (2019)
Ownership Concentration	OC	"Ratio of the shares held by the largest shareholder to total shares"	Souse & Galdi (2016)
		Control Variables	
Profitability	PROF	"Return on Assets"	Diaz & Pandey (2019)
Size	SIZ	"Log of Total Assets"	Azaro et al. (2019)
Leverage	LEV	"Debt to Equity Ratio"	Masdupi et al. (2018)

Source: Developed by the Researcher.

3.3. Research Model

In order to test the hypotheses, a model using "ordinary least squares" (OLS) is formulated in the following manner:

$$RDB = \beta0+\beta1\ BS + \beta2\ BM + \beta3\ BI + \beta4\ BGD + \beta5\ RD + \beta6\ OC + \beta7\ PROF + \beta8\ SIZ + \beta9\ LEV + \varepsilon$$

4. Results and Discussion

4.1. Descriptive Statistics

Table 3 shows the descriptive statistics for the quantitative variables (RDB, BS, BM, BI, and OC) and frequency distribution for dummy variables (BGD and RD). Like most previous studies, MENA banks are more likely to have more complex AR. The average Flesh score is 32, which entails that the RDB level of the banks is very low. This show that AR are difficult to read. Further, the results indicated that, on average, the banks have boards comprising of nine members who are more likely NE, largest shareholder, and that meet around six times per year. About 71% of MENA banks have a board chairman who plays a dual role. Additionally, about 31% of the board has no female directors.

Table 3. Descriptive Statistics.

	Min	Max	Mean	SD	Skewness	Kurtosis
RDB	17.90	43.20	32.0547	8.42349	-.314	-1.140
BS	6.00	12.00	9.4084	1.38006	-.935	.822
BM	4.00	9.00	6.5916	1.12768	.232	-.025
BI	.20	.91	.6646	.16861	-.727	-.439
OC	.17	.70	.4371	.16679	.079	-1.109
BGD	**N**				%	
Board has female directors	146				0.69%	
Board has no female directors	329				0.31%	
RD	**N**				%	
the chairman is the same person as the CEO	137				0.71%	

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the chairman is not the same person as the CEO	338	0.29%

Source: SPSS Outputs (25).

4.2. Correlation Analysis

Table 4 exhibits the correlation matrix. RDB is positively correlated with BS, while it is negatively correlated with BI, BGD and OC. Further, OC is negatively correlated with both BS and RD, while is positively correlated with BI and BGD. Moreover, RD is negatively correlated with both BM and BI, while it is positively correlated with BS. Additionally, BGD is negatively correlated with BS, while it is positively correlated with BI. Moreover, BS is negatively correlated with both BI and BM. The variance inflation factor (VIF) of the variables ranged from 1.224 to 3.347. This indicated that there was no multi- collinearity issue. This is because when VIF is less than ten; there will be no multi-collinearity in the data (Mahboub, 2021).

Table 4. Correlation Analysis and VIF.

	BS	BM	BI	BGD	RD	OC	RDB	VIF
BS	1							1.473
BM	-.124**	1						1.224
BI	-.337**	.010	1					1.476
BGD	-.240**	-.046	.315**	1				1.238
RD	.229**	-.206**	-.324**	-.072	1			2.193
OC	-.503**	-.075	.548**	.357**	-.653**	1		3.347
RDB	.512**	-.023	-.356**	-.371**	-.059	-.143**	1	

** Significance at P-Value 0.05

Source: SPSS Outputs (25).

4.3. Regression Analysis

Table 5 presents the findings of the regression model that examines the impact of CG structures on the RDB of AR in banks operating in the MENA region.

Table 5. Regression Analysis.

Variables	OLS Model
Constant	.430 (.668)
BS	12.999 (.000*)
BM	1.809 (.071*)
BI	-6.937 (.000*)
BGD	-7.206 (.000*)
RD	-.962 (.337)
OC	5.772 (.000*)
PROF	.884 (.377)
SIZ	-3.393 (.001*)
LEV	-.628 (.531)
F-Statistics	43.289 (.000)
R-Squared	.456
Adj-R Squared	.445
N	575

Source: SPSS Outputs (25).

The model's validity for drawing inference was confirmed by the statistically significant F-statistic value of 43.289 (.000) at a 5% significance level. Regarding the coefficient of determination (R-

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squared), it was observed that 45.6% of the systematic variations in AR RDB were accounted for by the independent and control variables in the model during the study period. This suggests that the CG mechanisms employed in this study cannot fully explain the variations in AR RDB of MENA banks, as they only account for 45.6% of the total variability. The remaining unexplained changes in AR RDB is attributable to other independent variables that were excluded from the analysis but were recorded as error terms

The multivariate analysis has shown that five aspects of CG structures greatly influence the RDB level of AR for banks in the MENA region. The findings confirm hypotheses H1, H2, H3, H4, and H6. However, the multivariate analysis does not provide an evidence to support that the RD has an impact on the RDB level of AR in the MENA context. Consequently, hypothesis H5 is not supported. Additionally, none of the control variables shows a significant association with RDB, except for the size of the bank.

The findings indicated that BS significantly influenced the RDB of AR (t=12.999; p-value=.000<0.05). This suggests that an increase in the involvement of board members enhances the comprehensibility of the bank's AR, as the BOD is responsible for ensuring that the information presented in the AR is unbiased, equitable, and easy to understand. Therefore, these results provide support for hypothesis H1. These results align with the research conducted by Etuk and Akpan (2023), who demonstrated that larger BS leads to improved RDB of AR for oil and gas companies listed in Nigeria. However, they contradict the findings of Ginesti et al. (2017), Ezat (2019), and Dalwai et al. (2023), who were unable to provide empirical evidence supporting the relationship between BS and AR RDB.

Moreover, the results demonstrated a positive impact of BM and the RDB of AR (t = 1.809; *p*-value = 0.071 < 0.1). This suggests that financial institutions with a higher number of BM tend to produce more comprehensible reports. This outcome can be explained by “agency theory”, which posits that an increased number of BM enhances the supervision of management by the board and enables directors to fulfill their responsibilities effectively, leading to the disclosure of clearer and more understandable information. Therefore, these findings provide support for H2. This finding aligns with the research conducted by Prusty and Kumar (2018), who found a significant relationship between the ease of reading business responsibility reports and BM in India. However, it contradicts the findings of Ezat (2019), who identified a negative association between BM and RDB and Astari et al. (2020) who reported that BM does not influence the RDB of AR.

Furthermore, the findings indicated that BI has a significant negative impact on the RDB of AR (t=- 6.937; p-value =.000<0.05). The results revealed that a higher degree of BI leads to a decrease in RDB. This implies that having independent boards may not necessarily promote better disclosure quality, as managers might intentionally obscure information to evade rigorous board oversight (as per the avoidance of monitoring hypothesis). Consequently, these results lend support to Hypothesis 3. These findings align with those of Rahman and Kabir (2023), who demonstrated that BI diminishes the RDB of AR. However, they contradict the findings of Ezat (2019), who failed to provide empirical evidence for the relationship between BI and AR RDB and Gosselin et al. (2021) who observed that BI is positively and significantly linked to the RDB of AR.

Moreover, the findings indicated that BGD has a negative impact on the RDB of AR (t=-7.206; p-value =.000<0.05). This result can be attributed that a higher level of GD within the board leads to an increase in divergent opinions and challenging inquiries, which in turn escalates the probability of conflicts, diminishes unity, contentment, and dedication. Additionally, GD introduces a variety of English writing styles, which in turn diminishes the RDB of AR, as board members with different linguistic backgrounds contribute varied writing inputs to the AR, making it challenging to harmonize these diverse writing styles during the AR preparation process, consequently impeding the creation of a coherent and easily understandable AR. Therefore, the results provide support for Hypothesis 4. These results are in contrast with the findings of Ginesti et al. (2018), Nadeem (2022), and Ben – Amar et al. (2023) who suggested that GD in the board enhances the RDB of ND in AR. Similarly, the results contradict the study by Shauki and Oktavini (2022) which indicated that the presence of female directors in a company does not influence the RDB of AR.

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Moreover, the findings indicated that the presence of OC has a significant positive impact on the RDB of AR ($t=5.772$; p-value $=.000<0.05$). Drawing upon the "active supervision theory", it can be deduced that OC enhances the oversight of managers and their subordinates, thereby preventing the concealment of unfavorable information. Consequently, this ultimately enhances the clarity of their AR. Thus, the results lend support to H6. These results align with the research conducted by Kumar (2014), Khan et al. (2017), Velte (2018), Melón-Izco et al. (2021), and Dalwai et al. (2023), who all reported that dispersed ownership leads to more easily understandable reports for banks. However, these findings contradict the evidence provided by Etuk and Akpan (2023), who found that OC had an insignificant impact on the RDB of AR.

4.4. Robustness Check

To understand the impact of CG structures on RD of AR more rigorously and to contribute a robust result, the main result findings are tested further. In so doing a "robustness test" have been applied for the model. Within the literature, a significant number of prior studies examines the impact of CG structures on RD by considering "Flesch-Kincaid Grade Level" (FKG) (Huong Dau et al., 2024; Worrall et al., 2020; Solnyshkina et al., 2017). Hence, as a "test of robustness", the impact of CG structures on RD has been assessed by replacing "flesh readability ease score" with FKG. Thus, the research model is altered into the following model and detailed results are presented in Table 6.

$$FKG = \beta 0+\beta 1\ BS + \beta 2\ BM + \beta 3\ BI + \beta 4\ BGD + \beta 5\ RD+ \beta 6\ OC + \beta 7\ PROF+ \beta 8\ SIZ+ \beta 9\ LEV + \varepsilon$$

Table 6. Robustness Check.

Variables	OLS Model
Constant	-.494 (.622)
BS	12.997 (.000*)
BM	1.784 (.075*)
BI	-7.144 (.000*)
BGD	-7.482 (.000*)
RD	-.394 (.694)
OC	6.192 (.000*)
PROF	1.680 (.094)
SIZ	-3.114 (.002*)
LEV	-.120 (.904)

Source: SPSS Outputs (25).

Based on the results in Table 6, the impact of CG structures on RD of AR are similar, with some exceptions for control variable PROF ($t=1.680$; p-value $=.094<0.1$). Therefore, CG structures of MENA banks play a significant role for in making their AR readable while managing, monitoring and controlling the bank.

5. Conclusions and Recommendations

This study examined whether CG structures have an impact on the RDB of the CL of banks operating in MENA region. The findings of this study indicate a positive impact of BS on RDB level of banks suggesting the larger BS can improve the RDB of AR. BM positively influences the RDB of the AR, thus indicating easy-to-read reports. BI negatively influences the RDB of the AR indicating a higher level of BI decreases RDB of the AR. Similarly, BGD has a negative association with the RDB of the AR demonstrating diverse board members hinders the production of readable AR. Inversely, OC has a positive impact on the RDB of the AR implying OC improves the RDB of the AR. These findings have significant implications. The study contributes to existing research by examining the linguistic complexity of disclosure reports in MENA region, from a theoretical standpoint. From a practical standpoint, this study will be advantageous for bank managers as it enables them to effectively communicate the necessary information by understanding their report writing style. It is

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important for MENA managers to acknowledge the potential difficulties that users may face when reading their reports, as this can result in a breakdown of communication with stakeholders. Hence, managers should be mindful of the RDB level of their AR. The study is subject to certain constraints. Initially, the study is centered on 95 banks across seven countries in the MENA region spanning from 2018 to 2022. Subsequent studies could broaden the scope by expanding the sample size, extending the time frame, and including additional countries. Secondly, the assessment of RDB levels is based on Flesh RDB scores. Future investigations could incorporate alternative measures of RDB, such as the FOG index. Lastly, the study delves into the RDB levels of AR for MENA banks; future research could explore the RDB levels of other types of reports, such as board reports and CSR reports. The focus of the study is on certain CG structures, while other factors like board duration and board composition diversity could be further explored. The study suggested that banks' management should contemplate augmenting the frequency of their board meetings to a minimum of six gatherings annually. Additionally, it was proposed that the board's size should be significantly expanded to enhance the RDB of AR. Furthermore, it is crucial to have a certain number of independent directors on the company's board, although an excessive amount should be avoided. Moreover, the appointment of women to boards is advocated to promote gender equality, rather than solely for the purpose of enhancing company performance through GD. Lastly, the study emphasized the necessity for management in the MENA region's commercial banks to amplify OC.

Appendix 1

Flesh Pattern of Reading Ease Ratings.

Reading Ease Rating	Description of Style	Educational Attainment Level	Typical Style of Magazine
0-30	Very Difficult	Postgraduate degree	Scientific
30-50	Difficult	Undergraduate degree	Academic
50-60	Fairly Difficult	Grade 10–12	Quality
60-70	Standard	Grade 8–9	Digest
70-80	Fairly Easy	Grade 7	Slick fiction
80-90	Easy	Grade 6	Pulp fiction
90-100	Very Easy	Grade 5	Comic

Source: Courtis (1995.

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