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CORPORATE GOVERNANCE AND CREDIT RATING IN MENA REGION

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ABSTRACT

This study attempts to detect the impact of governance mechanisms on the credit rating of MENA region companies. This research uses the Logit model. It is most widely used in failure early warning models. Using a sample of 23 firms in the MENA region rated by the rating agency "Fitch Ratings" during the period 2010-2020, this study found that increasing board size and ownership concentration have positive effects on firm credit rating, while increasing duality, institutional ownership, and managerial ownership have a negative effect. These results offer valuable insights for companies looking to enhance their governance systems and make informed investments in favorable conditions. The findings have significant implications for investors, since incorporating governance mechanisms into the rating process can assist companies in enhancing ratings. Indeed, rating agencies assess corporate governance by focusing on four key elements: ownership structure and influence, rights and relationships with financial stakeholders, financial transparency, and the structure and process of the board of directors. They strongly believe that rating agencies evaluate corporate governance based on four primary factors: ownership structure and influence, rights and relationships with financial stakeholders, transparency and financial structure, as well as the board's procedures. It is their belief that inadequate corporate governance can compromise a company's ability to meet its debt obligations and increase potential losses for its creditors. As capital markets are an important source of financing for emerging markets, the importance of credit rating agencies in providing standardized credit risk assessments for emerging market investments has continued to grow.

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1. INTRODUCTION

The development of financial markets and credit risk growth necessitates a better understanding of the credit process. Rating agencies adapt their credit rating process by incorporating additional variables that impact a company's capital structure and borrowing decisions. Besides the conventional debt explanatory factors, the unique characteristics of a company and its partners can significantly influence debt exposure. Therefore, studying the relationship between credit ratings and corporate governance mechanisms becomes relevant. In financial analyses, corporate governance is deemed a crucial determinant of company solvency and overall performance. Strong corporate governance practices indicate effective management, transparency, and accountability, which can result in higher credit ratings.

In addition, financial ratings have grown considerably worldwide, as they are a crucial concept for financial market participants in both developing and developed countries. As capital markets are an important source of financing for emerging markets, the importance of credit rating agencies in providing standardized credit risk assessments for emerging market investments has continued to grow. Consequently, corporate governance is now seen as an important determinant of credit ratings.

How do corporate governance mechanisms influence credit ratings?

This study seeks to investigate the impact of corporate governance on the credit rating of a company. Corporate governance is analyzed from the aspects of company structure (Size of the Management board, Duality, and proportion of independent directors in the board), ownership structure (institutional ownership, Managerial property, and Ownership concentration). To structure our analysis, we adopted a framework developed by Fitch's Rating for assessing firms' corporate governance structures and practices. Not all countries have comprehensive corporate governance codes in place. Many countries, however, especially those with developed financial markets, have implemented corporate governance guidelines or codes to improve corporate sector functioning. Code presence and

effectiveness can vary widely from country to country. In an analysis involving credit ratings and corporate governance, it is essential to consider whether the countries included have relevant corporate governance frameworks, as this can impact on the results and conclusions of the study. Lack of strong corporate governance practices can be a red flag for investors and may influence credit ratings.

2. LITERATURE REVIEW

Corporate governance is based on three main theoretical currents.

According to agency theory, corporate governance mechanisms (such as board structures, executive compensation, and oversight mechanisms) are designed to align the interests of executives with those of shareholders and mitigate agency costs. Effective corporate governance practices should reduce information asymmetry, reduce agency costs, and increase firm value. Alkhawaldeh et al. (2021) believe that good corporate governance practices may provide a means of enhancing competitiveness to attain a high credit rating. Bhattacharya and Sharma (2019) show that the governance attributes are designed to increase monitoring of management actions to promote effective decision making, limit opportunistic behavior and reduce the information asymmetry between the firm and its external stakeholders. Elbannan (2009) points out that companies with good governance have better credit ratings.

Resource rights property theory is applicable here as board property is seen as indicating better board governance, and therefore more skills and expertise available to the company. In the credit rating context, companies need access to external capital markets to finance operations and growth. Organizations with strong governance structures and good relationships with external stakeholders, including investors and creditors, are better positioned to achieve favorable credit ratings. These organizations may have more transparent financial reporting, reduced agency costs, and reduced likelihood of default, which are factors that credit rating agencies consider when assessing creditworthiness.

The specific governance variables chosen in the study may be based on the theoretical underpinnings of agency theory and resource dependence theory, as well as the relevant empirical literature. Prior studies found the role of the board of directors crucial in controlling managerial action and in limiting managerial discretionary power over other company stakeholders. Also, the relationship between board size

and credit rating has been well investigated. Agency theory focuses on the relationship between shareholders (principals) and management (agents) in a corporation. It suggests that conflicts of interest occur between these two groups. One of the main ways to mitigate these conflicts is through effective corporate governance mechanisms, including the composition and functioning of the board of directors. A larger board size may bring more diverse perspectives and expertise to the decision-making process, reducing the likelihood of self-interested actions by management.

In this sense, Anderson, Mansi, and Reeb (2004) and Bhojraj and Sengupta (2003) tested the relationship between size, as an efficiency factor of the directors' board, and credit rating. The results of their studies show that a company with a large board of directors size benefits from a better rating and a lower bond yield. Indeed, larger boards might be seen as a mechanism to enhance monitoring and reduce agency conflicts. More diverse perspectives from a larger board could lead to better oversight of managerial decisions.

H1: There is a positive association between the size of directors' board and the credit rating.

Previous studies highlight the need for an independent board of directors. The degree of independence is closely related to the board of directors composition, and more specifically to the proportion of outside directors in the board (Klein, 2000). According to Orozco, Vargas, and Galindo-Dorado (2018), external directors within the board increase the efficiency of its missions. Switzer and Wang (2013) indicate that outside directors are recruited for their skills and independence from management. They are also a source of varied skills in terms of training, professional and organizational experience. Their independence from the management allows them to oppose the most controversial decisions such as fixing of their remuneration and their replacements. Abdullah and Mohd Nasir (2004), however, find that the board independence does not influence the level of accrual management.

Coles et al. (2008) find that the appointment of an independent director has a positive impact on the credit rating (the bond ribs). They argue that the efficiency of the review of ratings assigned to a firm by rating agencies is positively influenced by the number of outside directors.

Then, independent directors play a crucial role in overseeing company management, ensuring that the interests of shareholders and other stakeholders are protected. Credit ratings, on the other hand, provide an assessment of a company's creditworthiness, which is important for investors and creditors.

H2: There is a positive relationship between the proportion of independent directors and the credit rating.

Previous empirical developments dealing with corporate governance highlight the necessity of separating functions between the chairman of the board of directors and the company's general manager, to avoid any concentration of power. Indeed, agency theory proposes that duality (multiple functions) compromises the board's ability to perform its monitoring role in an effective manner and subsequently reduces its independence. This is likely to have negative consequences for the company. This allows us to anticipate that the combination of the Chairman's Board functions and the Chief Executive Officer does not favorably affect the rating given by the rating agencies. The findings of Abdullah, Che A. Halim and Puat Nelson (2014) suggest that having a board of directors with a separate CEO and board chair may also improve financial reporting quality.

H3: Duality has a negative impact on the rating given.

Several researchers have affirmed the importance of institutional ownership within a firm. Indeed, institutional investors can exercise effective control since they can lower the cost of this control. Nguyen (2012), Bhojraj and Sengupta (2003) and Ashbaugh-Skaife, Collins, and Lafond (2006) reveal that a firm whose institutional ownership is large is more likely to have stable performance and better investor protection. In fact, financial and institutional shareholders having significant stake in the capital are more interested in the governance system and exercise their right to vote, to correct the policies of the directors. As a result, the presence of this type of shareholder has a positive influence on credit ratings.

H4: Institutional ownership has a positive impact on credit rating.

Many studies support the idea that managerial property can align the interests of the leaders and the other parties: agency theory

suggests that the divergence of interests can be limited by the increase of the share capital held by the directors. This solution, on the one hand, modifies the arbitration of the managers in favor of maximizing firm value. On the other hand, it makes it possible to reduce the cost of control supported by the shareholders, because it is supposed to reduce the opportunism of the leaders towards them (Louizi and Kammoun, 2016).

Ashbaugh-Skaife et al. (2006) confirm in their work the hypothesis of a positive association between managerial property and credit ratings. They argue that the leader who holds a significant share of the capital is more motivated to work in the company's interest to improve its rating. Indeed, the manager of a company with a high score benefits from overcompensation compared to the leader of a low-rated company.

In other words, managerial property can reduce the tendency of managers to take advantage of their position, expropriate shareholder wealth and engage in decisions that do not maximize firm value. In this case, the rating agencies will give a higher rating to a firm whose managerial property is important.

H5: Managerial property has a positive impact on the credit rating.

The property structure is a variable that has attracted increasing interest from finance researchers and is becoming increasingly important in explaining some aspects of the financial theory of business. It is considered like a control mechanism. Alissa et al. (2013) argue that the ownership concentration of capital in the hands of a small number of shareholders is a source of agency conflicts. Indeed, majority shareholders can influence management to obtain a detrimental benefit to bondholders. The result of their study came to an interesting conclusion that property concentration is attributing to degradation of the rating awarded.

H6: There is a negative association between the concentration of property and the rating given.

3. RESEARCH METHOD

The model analysis defines the determinants of a credit rating is as follows:

$$RATE_{it} = \alpha_0 + \alpha_1 ABS_{it} + \alpha_2 INDB_{it} + \alpha_3 CUMUL_{it} + \alpha_4 MARPRO_{it} + \alpha_5 OWCON_{it} + \alpha_6 INVI_{it} + \alpha_7 SIZE_{it} + \alpha_8 APR_{it} + \alpha_9 DEBT_{it} + \alpha_{10} CAINT_{it} + \alpha_{11} LINB + \varepsilon_{it}$$

Where:

I represents the company and t the period considered for the estimate.

$\alpha_0, \alpha_1, \ldots\ldots \alpha_{11}$: represent the unknown parameters of the equations to be estimated.

Where RATE: Credit rating, divided into eight groups following Ashbaugh-Skaife, where 1 is the lowest rating and 8 is the highest rating (we consider the long-term debt ratings of the international rating agency "Fitch Ratings"), ABS: Number of Directors comprising the Board, INDB: Total External Directors / Total Board Directors, CUMUL: 1: If the executive preside the council, 0: if not, MARPRO: The percentage of capital owned by executive, OWCON: 1: if a majority shareholder holding more than 50% of the capital exists, 0: if not, INVI: The percentage of capital held by institutional investor, SIZE(Size of company): Log (total assets), APR(Asset profitability): Profit before interest and taxes / total assets, DEBT(Level of debt): Total debt/equity, CAINT(Capital-intensive): Total assets/turnover, LINB(Line of business): 1 if the company belongs to a high-tech sector, 0 if not.

4. RESULTS AND DISCUSSION

We have developed an operational framework that will allow us to respond to our problem by providing the most concrete empirical references through the construction of variables and indicators.

Our sample is made up of the 23 MENA companies (Tunisia (4), Algeria (2), Egypt (3), Bahrain (3), Kuwait (4), Morocco (4), Saudi Arabia (3)) rated by the Fitch Ratings agency for the period from 2010 to 2020, thus a panel of 230 observations. We have excluded financial institutions and insurance companies after considering data availability and operational specificity. The company's financial data used in this study comes from the DATASTREAM.

The choice of companies in the MENA region is justified by our prospects for analysis. Indeed, the majority of academic studies

dealing with the effect of governance mechanisms on credit ratings have focused on samples of the US and Korean companies. Our study is to identify the determinants of a credit rating by focusing on the relationship between governance mechanisms and certain factors related to the firm and its operating environment. The ordinal nature of our dependent variable requires us to ensure that the condition of normality is met. In fact, the normality of the distribution of variables can be verified either by the Kolmogorov-Smirnov test or by the Shapiro-Wilk test. For a medium-sized sample (23 companies), the second test is more appropriate. This test depends on the nature (qualitative/quantitative) of the explanatory variables.

The following is a summary table of the normality test of the Shapiro-Wilk quantitative variables.

TABLE 1
Normality Test of Quantitative Variables

Variables	Statistics W	Value of Z	Signification
INDB	0.824	7.844	0.000
ABS	0.997	-2.299	0.989
INVI	0.749	8.677	0.000
MARPRO	0.615	9.663	0.000
SIZE	0.832	7.737	0.000
DEBT	0.975	3.311	0.000
APR	0.924	5.882	0.000
CAINT	0.980	2.775	0.002

This table shows a high significance (p-value 0.05) for all variables except for the ABS variable (size of the board of directors); the null hypothesis of normality is therefore rejected. In this case, the appropriate test is the Spearman or Pearson rank correlation test. Table 2 presents the results of the Spearman rank correlation test.

This table shows that companies with a large board have the highest rating compared to those with a small board. This result confirms a priori the H1 hypothesis and suggests the positive effect of board size on the credit rating.

With regard to the ownership share of institutional investors, we note that companies with low ownership by institutional investors have a better rating than those with high ownership by this type of investor.

With regard to managerial ownership and the independence of Board members, the Spearman test result is insignificant.

TABLE 2
Spearman Rank Correlation Test

Variables	RHO de Spearman	Signification
INDB	-0.102	0.122
ABS	0.363	0.000
INVI	-0.123	0.060
MARPRO	0.016	0.802
SIZE	0.121	0.065
DEBT	0.112	0.088
APR	0.077	0.243
CAINT	-0.078	0.234

Recalling that the Shapiro-Wilk test is used to test the normality of continuous variables, Table 3 refers. From Table 3, we see that the distribution of the RATE variable according to the CUMUL, OWCON and LINB categorical variables does not follow a normal distribution, in which case the appropriate test to use is the Mann-Whitney non-parametric test (rank comparison test). This test is based on the idea that if we mix the two sets of values for a variable from two samples and order it by increasing values, we must obtain a homogeneous mixture. The more homogeneous, the more we are certain that the two series come from the same population.

TABLE 3
Normality Test of Qualitative Variables

Variables	Statistiques W	Valeur de Z	Signification
RATE	0.989	1.363	0.086
CUMUL	0.998	-2.748	0.997
OWCON	0.999	-5.387	1.000
LINB	0.988	1.875	0.072

Table 4 summarizes the results of Mann-Whitney's non-parametric comparison tests on continuous variables.

The non-parametric test shows that the scores vary significantly according to the CUMUL variable (Prob > |z| = 0.0002). Indeed, this result shows that companies headed by a person combining the functions of general manager and board chair benefit from a higher rating than those headed by a person who does not perform the function of board chair. This result, contrary to what was

expected in H3, shows the positive effect of the accumulation of functions on credit ratings.

TABLE 4
Rank Comparison Test for Continuous Variables

Variables	Value of Z	Signification
CUMUL	3.773	0.000
OWCON	-0.557	0.577
LINB	3.288	0.001

Descriptive statistics for the variables included in the study are presented in Table 5.

TABLE 5
Descriptive Statistics

Variables	Mean	Median	S. D	5%	95%
RATE	3.59	3.00	1.40	3.00	5.00
INDB	9.74	8.00	3.50	4.00	15.00
CUMUL	0.16	0.00	0.37	0.00	1.00
ABS	8.54	7.98	1.30	5.54	10.65
INVI	60.00	44.50	70.67	1.00	157.00
OWCON	0.50	1.00	0.55	0.00	1.00
MARPRO	50.44	39.77	60.44	2.00	98.00
SIZE	7.98	7.67	1.34	5.76	10.65
DEBT	7.94	4.52	7.65	0.59	28.75
APR	0.81	0.69	0.45	0.23	1.43
CAINT	0.14	0.13	0.80	0.02	0.39
LINB	0.54	1.00	0.65	1.00	0.00

Before starting the multivariate analysis, we want to check the possible multicollinearity between the independent variables of our model. Multicollinearity is likely to alter the estimates of the variance of the coefficients in our regression. To do this, we develop the correlation matrix.

TABLE 6
Pearson Correlation Matrix

	RATE	INDB	ABS	INVI	MARPRO	SIZE	DEBT	APR	CAINT
RATE	1								
INDB	-0.131**	1							
ABS	0.344	0.135**	1						
INVI	-0.259**	0.183**	-0.007	1					
MARPRO	-0.058	0.037	-0.008	-0.179**	1				
SIZE	0.005	0.188**	-0.034	-0.006	0.013	1			
DEBT	0.027	0.011	-0.038	-0.001	0.018	0.042	1		
APR	0.063	-0.002	0.042	0.074	0.345*	0.313**	-0.276**	1	
CAINT	-0.003	0.150**	-0.054	0.090*	0.093*	-0.112*	0.077	-0.018	1

Notes: *, ** indicate the correlation is significant at the level 0.05 and level 0.01, respectively.

Examination of the Pearson correlation matrix reveals no extremely high level of correlation between the independent variables. In fact, all correlation coefficients between these variables do not exceed the limit value from which we can assume the presence of a serious multicollinearity problem, namely 0.8 (Kennedy, 2003).

Before presenting the results of the model linking governance mechanisms and credit rating, however, it is advisable to validate the hypothesis that there is no correlation between the explanatory variables. Since the functional form of category-dependent variable models does not allow the use of the VIF test, we use the Farrar and Glauber test (1967).

This test is established in two steps. The first is to determine the matrix R of correlation coefficients between the explanatory variables. When the determinant of this matrix tends toward zero, the risk of correlation is high. If their determinant is equal to one, the matrix is called orthogonal, which reflects the absence of correlation between the explanatory variables.

The second step is based on the Chi-square test, based on the following two assumptions:

H0: The orthogonality of the explanatory variables
H1: The dependence of explanatory variables

The Farrar and Glauber test statistics are calculated as follows:

$$\chi 2 = - [n-1- 1/6(2K+5)] \ln|R|$$

Where R is the determinant of the correlation coefficient matrix, n is the sample size and K is the number of explanatory variables.

It is the chi-square distribution with degrees of freedom (v): v = 1/2k (k-1).

If the determined value is greater than the tabulated critical value, the orthogonality hypothesis of the variables is rejected. On the other hand, if the calculated value is lower than the critical value, the orthogonality hypothesis of the variables is accepted and therefore the multicollinearity problem is not significant.

TABLE 7
The result of Farrar and Glauber's test

Farrar and Glauber	$\chi 2$ emp
Model	14.15

The result of this test shows that the Chi-square value determined is much lower than the tabulated value (with a degree of freedom of 55 at the statistical threshold of 5%). This confirms that there is no multicollinearity problem.

It should be recalled that the objective of our multivariate analysis is to develop an empirical model for determining the factors that may explain credit rating.

To achieve this objective, we use a Logit model since it is the most widely used in early warning failure models and thus as part of our rating prediction work, which is one of several indicators of both corporate strength and failure.

The principle of the Logit method is to link the probability of responding to one of the modalities of the variable to be explained according to explanatory variables. The analytical expression of the models is as follows:

$$\text{Log}\,[p(y=j \mid x_i) / p(y=1 \mid x_i)] = \beta_j + \alpha_j X_i$$

In ordered logistic regression model, a reference modality must be selected, the estimated coefficients will be interpreted according to this reference modality. The probability of choosing modality "j" considering that the reference modality is modality 1 is therefore:

$$P(y=j \mid x_i) = \exp(\beta_j + \alpha_j X_i) / [1 + \sum_{k=2}^{j} exp(\beta k + \alpha k X i) \sum_{k=2}^{J} exp(\beta k + \alpha k X i))]$$

For modality 1, we have: $P(y=1 \mid x_i) = 1 / [1 + \sum_{k=2}^{J} exp(\beta k + \alpha k X i))]$

We can thus obtain the log-likelihood of the sample:

$$l(\beta,\alpha) = \sum_{i=1}^{n} \quad yijlog\big(p(xi)\big).$$

To estimate the coefficients of the linear function (α), we try to maximize the likelihood function.

The maximum likelihood method makes it possible to estimate the coefficients of the parameters α, which represent the weighting of the explanatory variables X having a considerable effect on credit ratings.

TABLE 8
Result of the Logistic Regression

Variables	Coefficient	Z-Statistic	Signification
ABS	0.528	6.37	0.000***
INDB	0.299	0.51	0.609
CUMUL	-1.166	-3.57	0.000***
INVI	-4.868	-4.88	0.000***
MARPRO	-4.533	-2.63	0.009***
OWCON	0.585	1.87	0.061*
SIZE	0.630	4.21	0.000***
APR	1.725	0.79	0.430
DEBT	-0.322	0.42	0.000***
CAINT	0.514	1.44	0.149
LINB	-1.491	-4.04	0.000***

Notes: *, **, *** indicate the level of significance coefficient at 10%, 5%, and 1%, respectively.

Regarding the INDB variable, the estimate of our regression model includes the proportion of independent directors present on the board, which shows that this variable has no significant effect on this rating. This result is not in line with the assumption we have made. The insignificance of these variable results from the difficulty experienced by this type of administrator in adapting to the institutional and economic environment.

According to Fitch Rating's report (2009), the presence of an independent director reduces credit risk. Nevertheless, the role played by these directors seems weak and limited due to the high ownership concentration.

In 2011, the Central Bank of Tunisia, aware of the weakness of governance and to strengthen the independence of the boards of directors, published a circular emphasizing the efficiency of the board's mission.

The positive sign of the coefficient attached to the board of directors size is in line with that anticipated. This finding is aligned with the conclusions of the work carried out (Anderson et al., 2004). A large board size allows for better control, preservation and balancing of varied stakeholder interests. From this perspective, as the Board size increases, the skills, experience and expertise of its members will increase. An expanded Board of Directors brings a variety of experience and knowledge to the Board. As a result, large board size ensures control over management and encourages effective strategic decision-making to improve the company's rating. This result is consistent with that of Anderson et al. (2004) and Tariggan and Fitriany (2017), who show that a company with a large board size benefits from a higher rating.

Duality or accumulation of functions concentrates information and decision-making power in the hands of a single individual who is the leader. In this case, the decision and control functions are combined. This association has a negative and significant impact on credit ratings. The H3 hypothesis attesting to the negative effect of the accumulation of functions on scores is therefore confirmed.

As a result, it is preferable for a company to opt for separation of the functions of Chairman of the Board and Chief Executive Officer to avoid a considerable concentration of power and to limit the discretion of officers. This option prevents managers from having the opportunity to hide the real solvency of the company. As a result, rating agencies do not perceive as desirable the combined functions of Chairman of the Board of Directors and Chief Executive Officer.

We can deduce that the Chairman of the Board of Directors, while also being the President and Chief Executive Officer, has an impact on the credit policy and, therefore, on the credit rating.

Inconsistency however exists in results between Table 8 and Table 4. This could entail conducting further analyses, exploring potential moderators, or conducting qualitative research to gain insights into the contradictory findings.

Analysis of the effect of the ownership structure on the rating shows that, contrary to what has been expected (H4), the participation of institutional investors in the company's capital has a negative and

significant effect (1%) on the credit rating. Institutional investors only aim for short-term performance and force managers to adopt strategies that meet their expectations. According to this argument, they are less able to exercise effective control. As a result, the credit rating is poor in companies with significant institutional ownership.

The same result is obtained by using the percentage of capital held by managers as a measure of managerial ownership. Rating agencies give a lower rating to a firm when its managers are owners. The ownership of managers is a source of significant agency costs and is likely to accentuate problems of managerial opportunism. Executives tend to maximize their personal utility rather than shareholder wealth. From these considerations, credit ratings may not be guaranteed as a result of opportunistic behavior by executives.

This result is consistent with that of Ashbaugh-Skaife et al. (2006), who confirm in their work the hypothesis of a positive association between managerial ownership and credit rating. They claim that the manager who holds a significant share of the capital has a greater incentive to work in the company's interest to improve its rating. Indeed, the manager of a company with a high rating benefit from overcompensation compared to the manager of a company with a low rating.

Concerning the OWCON variable, observation of the table shows that this variable has a positive and significant effect on the rating. This result confirms the H6 hypothesis that ownership concentration has a positive moderating effect on credit ratings

Such a result indicates that ownership concentration is a factor that favors shareholder control over the management of executives. A well-balanced ownership structure that ensures protection of minority shareholder rights, fosters transparency, and promotes good governance practices is more likely to positively influence a company's credit rating.

As for the control variables, the regression result shows that, as expected, the relationship between company size and rating is significantly positive (at the 1% level). We can conclude that large companies reflect better operating performance. They are looking for more diversified product lines and more varied income sources with a lower default rate; Therefore, a better rating.

Debt has a negative impact on credit ratings. In this context, when the level of debt is higher, more companies are exposed to default risk. Consequently, debt seems to be a signal to the market of the company's quality. Poor quality borrowers cannot report themselves by increasing their debts, otherwise they risk their

businesses and going bankrupt. Rating agencies are uncertain about the quality of the company.

As for the sector of activity, the coefficient associated with this variable is negative and statistically significant at the 1% threshold.

5. CONCLUSION

This study aimed at verifying the impact of governance attributes on company credit ratings. The study covered 23 companies in the MENA region that received ratings from Fitch Ratings over the period 2010-2020.

Under agency theory, shareholders/managers do not have the same interests as creditors. Shareholders are encouraged to invest in risky projects. Creditors are rather at risk since they only receive a fixed remuneration for their deposits. Jensen and Meckling (1976) show that the increased risk only benefits shareholders at the expense of creditors. In the event of a gain, only shareholders benefit from the increase in asset value. While in the event of failure, the limited liability of shareholders limits their losses and the costs will be borne by all creditors. From the moment they entrust their money, depositors will be required to control and monitor the evolution of the ratings given to the issuing entity in order to assess the risk. The evolution of ratings is therefore a matter for corporate governance mechanisms.

Thus, we propose to test empirically, in the context of MENA companies, the effect of ownership structure and the board of directors on credit rating. To achieve this objective, we used a binomial logistics model. The relevance of using this type of model is the ordinal nature of our dependent variable.

Our results show that certain governance mechanisms, namely: size of the board of directors, the combination of functions, the ownership structure and certain external factors such as the size of the company and its level of debt, can impact on the ratings given by the rating agency.

Political stability and effective governance are crucial factors in determining a country's creditworthiness. A stable political environment, strong institutions and the rule of law contribute to investor confidence and can lead to higher credit ratings. Conversely, political instability, corruption and poor governance can have a negative impact on a country's solvency.

MENA governments that pursue prudent economic policies, prioritize transparency and accountability, have faced various

geopolitical challenges, and the majority that have diverse governance structures, economic conditions, and political dynamics, are more likely to benefit from favorable credit ratings.

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