Corporate disclosure and foreign share ownership: empirical evidence from African countries

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Abstract

Purpose – The study aims to seeks to ascertain the impact of corporate disclosure on foreign equity ownership. Corporate disclosures are important to for stock markets because it is an activity that mitigates information differences between company insiders and outsiders.

Design/methodology/approach – Corporate disclosures assume an even greater important when company outsiders are not domiciled in the same country as the company and the company insiders. In this study, the relation between foreign share ownership and corporate disclosures using data on Ghana, Kenya and Nigeria is examined.

Findings – The consistent results in this study are that foreign share ownership is positively related to firm size. A negative relation, however, between foreign share ownership and corporate disclosure is found, but this turns out to be related to disclosures about ownership, while disclosures on financial reporting and board management have a positive and insignificant statistical relation taking into account unobserved country, time and firm effects. Further analysis shows that corporate disclosures are very persistent and negatively related to lag foreign share ownership. No consistent statistical relation is found between disclosure and market-to-book values as a proxy for investment opportunities. It is recommended to African-listed firms to pursue adoption of high-quality financial reporting standards and to increase their reporting on board management. The study also recommends that the African Government weighs the benefits of detailed ownership disclosures.

Originality/value – The study utilises frontier market data to complement existing literature on how corporate disclosure and transparency influences foreign investors decision to invest in Africa.

Keywords Equity, Corporate disclosure, Frontier markets

Paper type Research paper

1. Introduction
Management of firms needs to communicate the performance and governance of the firm to outsiders given the divorce between corporate insiders and outsiders (investors)

that characteristics listed firms in most stock markets today. Corporate disclosures are important for the proper functioning of capital markets which has implications for the efficient allocation of capital. For developing countries, the added significance of corporate disclosures is the implications for attracting foreign investment (foreign share ownership) and the antecedent economic benefits that foreign investment may in developing economies. As such, institutions created to facilitate and ensure credible disclosure practices (corporate governance institutions) are crucial in capital markets and would be considerably so in developing countries. This study investigates the relation between corporate disclosures and foreign share ownership of three African stock markets: Ghana, Kenya and Nigeria. These countries represent economies of significant potential on the African continent outside South Africa, Botswana and the North African states. Although, the cultures are different to an extent, the three countries share a common colonial heritage but this does not eliminates country-level unobservable effects that would implications for panel data studies like this study[1].

Attracting foreign capital is important for developing countries, and the stock market present one avenue for local firms to tap into the global investor-public. For example, Portes and Rey (2005) argue that gross transaction flows depend on market size in source and destination country as well as trading costs, in which both information and the transaction technology play a role. The standard finance literature document information asymmetry between domestic and foreign investors. Globalisation, the integration of capital markets and the need to access capital requires that firms disclose more information and adopt high quality governance standards to attract investor funds particular for firms resident in developing countries. The need for strong corporate reporting frameworks is compounded by the myriad corporate failures in the USA and other parts of the world (Johnson *et al.*, 2000; Becht *et al.*, 2003).

Developing countries are often characterised by corporate governance practices and consequently poor disclosure practices. Renewed interests in corporate governance practices in developing countries was bolstered by the IMF-/World Bank-led economic reforms, in several developing countries (Rabelo and Vasconcelos, 2002; Ahunwan, 2002; Reed, 2002; Gugler *et al.*, 2003). Also, the New Partnership for African Development (NEPAD) recognizes the importance of corporate governance as part of an outline of programs that is preconditions for sustainable development as Economic and Corporate Governance framework. Indeed, NEPAD's steps echo studies such as Maher and Anderson (1999) that show that corporate governance framework impacts the development of equity markets, and entrepreneurship and consequently economic growth. A strong corporate governance environment results in corporate disclosures that are transparent and adequate. Indeed, studies suggest that transparency and disclosure practices are an important component and a leading indicator of corporate governance quality (Aksu and Kosedag, 2006; OECD, 1999). Further, Black (2001) argues that disclosures regarding governance mechanisms, ownership structure and financial reports improve external monitoring. Such external monitoring is of great importance for foreign investors in developing countries. Empirical evidence suggests that foreign investors avoid investing in developing countries because of weak corporate governance practices (Mangena and Tauringana, 2007; McKinsey and Company, 2001; Gibson, 2003). Other studies such as that of Young and Guenther (2003) find that international capital mobility is associated with countries in which there is greater disclosure of value relevant accounting information.

The foregoing studies provide our motivation to understand the relation between corporate disclosures and foreign share ownership on the African country. A number of related studies on Africa are not as comprehensive as the current study. For example both Bokpin and Isshaq (2009) and Tsamenyi *et al.* (2007) study the Ghanaian stock market the difference being the measurement of disclosures and simultaneously modelling of disclosures and foreign share ownership. But Mangena and Tauringana (2007) study the Zimbabwean market. The setting of these studies not allow comparison of different countries neither do they show the effect of disaggregated components of disseminated company information and nonlinearities in the disclosure-foreign share ownership relation. Our study considers these issues. This paper is unique by constructing a comprehensive disclosure index for listed firms on the African Stock Markets by following the trinary procedure of Aksu and Kosedag (2006) using Standard and Poor's transparency and disclosure items. Thus, this study makes an important contribution to the literature on corporate disclosure and foreign share ownership on the African Stock Market.

Using regressions controlling for country-year and firm fixed effects in panel data estimations, and country-by-country analysis with firm-fixed effects, we find that foreign share ownership is negatively related to corporate disclosures. Breaking down corporate disclosures into disclosures about ownership, financial reporting and board management reveals that the negative relation is due to disclosures about ownership. There is positive correlation between financial and board management disclosures that is not statistically significant. Our results also show that lag disclosures is positively related to contemporaneous disclosures indicating persistence in corporate disclosures. We do not also find a statistically significant relation between market-to-book and corporate disclosures.

The rest of the study is organized as follows. The next section reviews corporate governance institutions in countries in the sample. Section 3 provides a brief survey of the literature and Section 4 presents the method of the study. Empirical results are reported in Section 5, while Section 6 presents concluding remarks.

2. Corporate governance institutions and legal regimes
This section reviews the legal and institutional framework that enshrines governance practices of public companies in the three countries considered in this study. Ghana, Kenya, and Nigeria are all former British colonies as such they share the common law legal traditions. Considering each country in turn, the key legislation concerning corporate governance in the study countries are detailed below.

2.1 Ghana
The principal legislation on corporate governance in Ghana is the Companies Code 1963 (Act 179). Rules relating to stock market listing are enshrined in the Securities Industry Law, 1993 (PNDC Law 333) as amended by the Securities Industry (Amendment) Act 2000, (Act 590). Act 590 provides regulations governing investment advisors, securities dealers (brokers), and collective investment schemes (mutual funds) licensed by the Securities and Exchange Commission (SEC) as well as membership and listing regulations of the Ghana Stock Exchange (GSE). These legislations are complemented by the Ghana National Accounting Standards and the codes of professional conduct imposed by the Institute of Chartered Accountants (Ghana) on its members. Under the

Companies Code, 1963, (Act 179), the responsibility for good corporate governance at the firm level rests on the board of directors. The Companies Code enjoins directors to, at least once annually (at intervals of not more than 15 months), prepare and send to each member and debenture holder of the company a profit and loss account, balance sheet, cash flow statement, notes to the account and directors' and auditors' report. These documents are to be presented to shareholders at the Annual General Meeting. The GSE listing regulations require more frequent disclosure from listed companies. Listed companies must provide the GSE a half-yearly report as soon as figures are available (no later than three months after the end of the first half-yearly period in the financial year) and a preliminary financial statement as soon as figures are available (no later than three months after year-end).

The GSE listing regulations also provide the timeframe within which annual reports should be circulated and also require investors to be provided with information such as members of the board of directors and key executives and their remuneration, material foreseeable risk factors, major share ownership and voting rights, and the financial and operating results of the company. Some of the GSE listing provisions re-echo the Company's Code required disclosure by directors of material interests in transactions or contracts affecting the company. However, neither the Companies Code nor the GSE listing regulations imposes explicit liability for the accuracy of financial statements on the board of directors like that required by the Sarbanes–Oxley Act of the USA following the Enron debacle of 2001. The Companies Code also requires that prior to the commencement of business, a company must have auditors.

2.2 Kenya

The Kenyan capital market is regulated by Capital Markets Authority, which derives its power from Capital Markets Authority Act. Thus, disclosure and corporate governance by public listed companies in Kenya is governed by the Capital Markets Act, 2002 (*cap. 485a*). The framework institution by the Capital Markets Act seeks to advance three important issues. First, there must be an effective body responsible for governance separate and independent of management to promote accountability, efficiency and effectiveness, probity and integrity, responsibility as well as transparent and open leadership with accurate and timely disclosure of information relating to all economic and other activities of the corporation. Second, there must be an all-inclusive approach to governance that recognizes and protects the rights of members and all stakeholders – internal and external. In addition, the institution must be governed and managed in accordance with the mandate granted to it by its founders and society, and take seriously its wider responsibilities to enhance sustainable prosperity. Third, the institutional governance framework should provide an enabling environment within which its human resource can contribute and bring to bear their full creative powers towards finding innovative solutions to shared problems.

2.3 Nigeria

The legal framework for corporate governance and disclosure in Nigeria is enshrined in a number of legislation related to specific corporate business types and general company incorporation matters. The Companies and Allied Matters Act (CAMA), governs all companies on matters relating to incorporation and dealings with members, directors, officers and debt holders of a company. Legislation to financial assets

including exchange listing are covered under the Investment and Securities Act (ISA), the Banks and Other Financial Institutions Act (BOFIA), the Insurance Act (IA) and the National Insurance Commission Act which governs the Nigerian financial system made up of bank and non-bank financial institutions. Apart from the government-mandated legislation, voluntary initiatives on corporate governance in Nigeria are enshrined in Code of Best Practices on Corporate Governance (Nmehielle and Nwauche, 2004). The Central Bank of Nigeria Act (CBN Act) prescribes standards to guide the conduct of business regarding persons who are appointed chairmen, members of the board of directors and top management of banks. The Nigerian Stock Exchange also exercises some control through its rules that govern the companies that are allowed to trade their stocks and shares.

The provisions of CAMA relate to the management of the company, and the financial reporting requirements and oversight functions of the auditors. It clearly spells out issues relating the organs of a company and management powers, the audit process and the qualification of directors, audit committee. The Investment and Securities Act (ISA), establishes the Securities and Exchange Commission of Nigeria (SEC Code of 2003) whose functions include the protection of the integrity of the securities market against abuses arising from the practice of insider trading.

In addition to the statutory legislations, there are other voluntary standards that govern corporate governance practice in Nigeria. The best known is the Code of Best Practices on Corporate Governance in Nigeria. The Code provides benchmarks on three broad areas of corporate governance: board of directors, the shareholders and the audit committee. The Code lists the board's functions that include ensuring the integrity of financial controls and reports, ensuring that ethical standards are maintained, and that the company complies with the laws of Nigeria. The Code also recommends the provision of information that will enable members to vote properly on any issue. The Code of Best Practices on Corporate Governance indeed provides benchmarks for the audit committee are supplement to the provisions of section 359 of the CAMA.

3. Literature review
In this section, we review the academic literature in general on corporate disclosure implications for firm value, and the relation between corporate disclosure and foreign share ownership interest in domestic firms. We start by looking at the theories of corporate disclosure and its relation with firm value. We also consider the literature on what corporate disclosures implies about the corporate governance framework under a firm operates, and last we look the literature on the relation between corporate disclosure and foreign share ownership.

3.1 Theories of corporate disclosure
The need for corporate disclosure rests on the capital markets environments that entrepreneurs who set up companies knows more about the investment opportunities of the venture than others – savers (investors) – who are invited to contribute to the capital of the venture by the entrepreneur. The need for disclosures, therefore, arises as a consequence of the information differences between investors and company insiders (Healy and Palepu, 2001). The disclosure is necessary to resolve information asymmetry between insiders and outside investors. Thus, regulations on financial reporting are geared towards this goal. The added disclosure required for stock market listing is

further intended to ensure that all relevant information that an investor needs to make an investment decision for a listed company is made available by insiders in timely manner and not utilize by company insiders (e.g. insider trading) to the detriment of outside investors. Statutory regulations are the principal means of addressing the informational problem. But there are also disclosures by companies beyond those set by statutory regulations – press releases, product launches, analysts conference calls, among others. These are voluntary disclosures. Academic studies of corporate disclosure policies often tries to understand why management of a firm would choose to provide investors and the public at large more information on the operations of a firm other than those stipulated statutory legislations[2]. These studies also motivate research into the valuation implication of corporate disclosures.

Today's capital markets also entail, in most cases, a separation of ownership from control. The separation of ownership from control gives rise to agency problems. Agency problems compound the need for disclosure. Because self-interested managers hold motives that may be in conflict with shareholders' expectations hence and managers need to be monitored with disclosures being one such mechanism for monitoring (Eisenhardt, 1989; Fama, 1980; Jensen and Meckling, 1976). Abrahamson and Park (1994), also observe that managers may conceal negative outcomes to protect their interests in reputation, control, compensation and career advancement. The foregoing suggests that rational investors would prefer to investors in a company for which managers make sufficient disclosures. Corporate disclosures, therefore, have implications for a firms value (Lobo and Zhou, 2001). Indeed, a foreign investor, rationally, would prefer domestic companies that provide adequate disclosures since being based outside the local of market entails some information disadvantages.

Corporate disclosures also serve other purposes that are not purely to address the information asymmetry issues as the foregoing suggest. Corporations exist within communities; this fact of late has led to what studies call legitimacy concerns for corporate disclosures. Campbell et al. (2003) observe that the legitimacy theory explains voluntary disclosures of social and environmental impacts of corporations, even though there is increasing legislations in certain jurisdictions requiring social and environment reporting. Another reason for voluntary disclosure is the political costs theory. The theory holds that companies will voluntarily disclose information if doing so will lead to an improvement in relationships with governments and the public sector (Alvarez et al., 2007). Disclosures such as dividends paid to the state, number of jobs to be created by a project, may help decrease political costs (e.g. taxes) or in obtaining certain advantages (e.g. government subsidies, governmental actions in favour of the corporation).

The foregoing leads to the impression that corporate disclosures increases firm value. However, there is a potential dark side to corporate disclosures particular voluntary disclosures. For example, Wagenhofer (1990) observes that a firm is endowed with private information which is relevant to the market in assessing the firm's price but disclosure of such information may invite rivals or potential rivals to enter the firm's market or a political agency that may take adverse action against the firm. Thus, corporate disclosures could compromise the firm's competitive position by providing strategic information to potential competitors (Darrough and Stoughton, 1990). The foregoing suggests there is a threshold for corporate disclosures beyond which disclosures might be value-destroying for the disclosing firm. Verrecchia (1983) shows

that the threshold level of disclosure depends on the proprietary cost rivals can impose on the disclosing firm.

Overall, the preceding discussion suggests that there are cost and benefits to corporate disclosures. Corporate disclosures improve the level of stock liquidity by reducing the severity of information asymmetry surrounding a firm, which, in turn, leads to lower the cost of capital. Lambert (2001) documents that increased transparency and better corporate governance increases firm value by reducing the amount that managers appropriate for themselves. Costs associated with increased corporate disclosure include the direct costs of preparing, certifying and disseminating corporate information. Indirect costs of disclosures include jeopardizing competitive position. But these costs only start to kick-in if only corporate disclosures are beyond the optimal level. Thus, the complex interplay of the costs and the benefits ultimately determines the net benefit to the firm.

3.2 Corporate disclosure and governance

The principal–agent theory is generally considered as the starting point for any discussion on corporate governance (Maher and Anderson, 1999). Generally, corporate governance concern are institutional mechanisms – mandatory or otherwise – aimed at resolving collective-action problems among widely dispersed stakeholders and the reconciling conflicts of interest between various corporate claimholders. The quality of disclosure is very intertwined with the concept of corporate governance because the more a company discloses is indicative of how transparent managerial actions are, which is symptomatic of corporate governance quality. Empirical research shows that corporate disclosures are indicators of corporate governance framework quality (Aksu and Kosedag, 2006) or that firms with strong corporate governance setups make more disclosures (Beeks and Brown, 2005). Therefore, firms with institutionalized corporate governance structures would be more transparent than firms that have weaker corporate governance frameworks. Our measure of corporate disclosures entails the foregoing observations. The measure captures among others the organization framework (corporate governance setup) for corporate disclosures. Thus, our measure of corporate disclosures implicit includes inferences that are relevant for discussions of corporate governance.

3.3 Disclosure and foreign share ownership

Corporate disclosures by a local firm would be important for non-resident foreign investor to deciding to invest in a local firm. One reason is that foreign investors are "informationally" disadvantaged relative compared to domestic investors (Kang and Stulz, 1997; Choe et al., 2005) by being non-resident. Further, foreign investment across borders faces exacerbated adverse selection problem (Akerlof, 1970; Milgrom, 1981) when there are no adequate corporate disclosures. Other factors also make corporate disclosures important for foreign investors such as the effects of home bias. For example, Choe et al. (2005) find that for Korean stocks prices move more against foreign investors than domestic investors before trades. Also other studies argue that poorly governed foreign firms represents risk of managers actively hiding the extent of governance problems and expropriation activities like providing opaque financial statements and managed earnings (Leuz et al., 2003; Fan and Wong, 2002).

Empirical studies provide support for a positive relation between corporate disclosures and foreign share ownership. Leuz *et al.* (2007) provide results that suggest that foreigners invest less in firms with ownership structures that are conducive to poor particular. The general corporate governance environment in the domestic economy is also important in foreign investors share ownership. Leuz *et al.* (2007) also report that foreign share ownership is positively related to investor protection, factors that are often associated with corporate disclosure. Also, Giannetti and Koskinen (2007) and Chan *et al.* (2005) find that global mutual funds put a larger share of their assets in countries with better scores of private enforcement of investor rights.

The preceding suggests that the direction of causality is from disclosure to foreign share ownership; that is, if a firm discloses more foreign investors would be willing to increase their take in the firm assuming no limits on foreign share ownership. The above ignores a critical observation that foreign investors may be demanders of higher corporate disclosures in developing countries such as those in this current study. Anecdotal evidence suggests that most of the non-resident foreign investors in these markets reside in more advanced economies, economies that have more developed corporate governance systems. The foregoing suggests that instead of corporate disclosures attracting foreign share ownership, foreign share ownership may in part drive the level of corporate disclosures. We test this argument in our empirical analysis, the empirical specifications being detailed in the next section.

4. Data and research methodology
4.1 Data
The current study uses accounting and market data of publicly traded companies on Ghana, Kenya and Nigeria stock exchanges over the period 2000 to 2008. The data on disclosure scores were hand collected from annual financial statements, and related company disclosures such as websites. Financial statements data and market data were also extracted from annual fact book (stock market reports) of annual reports and financial statements of the listed companies. The data include all firms listed on the various exchanges during the sample period. Foreign share ownership is defined as the percentage shareholding of non-resident foreign investors. Thus, our definition for foreign share ownership excludes foreign direct investment (FDI). The measurement of disclosure is detailed below. Other variables used in the analysis use standard definitions found in the extant literature.

4.2 Measure of disclosure
Our disclosure scores mirrors the trinary procedure of Aksu and Kosedag (2006) and adapted the Standard and Poor's transparency and disclosure items. Given the absence of reliable disclosures at the firm level across for African firms, this proxy is a good parsimonious measure relative the index used in studies such as Tsamenyi *et al.* (2007) in their Ghanaian study. The data is obtained from a scoring questionnaire for each firm and covers financial disclosures, corporate governance disclosures and voluntary disclosures. The disclosure score of a firm is defined as follows as in Aksu and Kosedag (2006, p. 286):

$$TDS = \sum_{j} \sum_{k} \frac{S_{jk}}{TOTS} \tag{1}$$

subscript, S_{jk} is the number of information items disclosed (answered as "yes") for a firm
in all categories, and *TOTS* is maximum possible "yes" answers for each firm.
Essentially, this variable measures the proportion of "discloseable" items that a firm
discloses. A high value indicates higher level of transparency. The measure also takes
into account that certain items on the Standard and Poor's questionnaire may not apply
to a firm, in that cases such an item is not part of the potential "discloseable" items a firm

could disclose. Does on each question, there are three possible answers: Yes (disclosed),
No (not disclosed) and N/A (not applicable). This is why we refer to our corporate
disclosure measure as a "trinary" measure.

4.3 Econometric framework
Our empirical analysis uses a panel data framework, as we have data on firms over
times. An added dimension to our data is the country level which has econometric
implications, which consider in our assessing of the empirical results in the next section.
The general form of panel data model is as follows:

$$y_{it} = \alpha + X'_{it}\beta + \mu_{it} \quad i = 1, \ldots, N; \; i = 1, \ldots, T \tag{2}$$

where the subscripts i and t represent the firm and time dimensions of the dataset. To
obtain statistically meaningful inferences, a researcher must address assumptions
about the error term in equation (2):

$$FORESHARE_{jit} = \alpha + \delta TDS_{jit} + \chi'CONTROLS_{jit} + \varepsilon_{it} \tag{3}$$

where subscript i and t represent the firm and time and j indicates country. For example,
TDS is the level of disclosure score of firm i in country j in year t. Our expectation is that
higher values of disclosures, *TDS*, will be associated with higher foreign share
ownership; that is, $\delta > 0$. *FORESHARE* is foreign share ownership defined as
non-resident foreign shareholding in firm. *CONTROLS* is a vector of control variables
including volatility of income, leverage, profitability, free cash flow, market-to-book
value and firm size. Our control variables are motivated by the extant empirical
evidence. Prior studies such as Dahlquist and Robertsson (2001) and Jiang and Kim
(2004) find a positive relation between foreign share ownership and company size,
profitability but a negative with relation exist between leverage and foreign share
ownership. Also, in a study of Zimbabwean firms, Mangena and Tauringana (2007) find
a significant positive relation between foreign share ownership and profitability,
liquidity and size.

To test for the determinants of disclosure levels, we estimate the following model.
The estimation of equation (4) helps to provide insight on:

- whether foreign share ownership leads to increase corporate disclosures on the
African stock exchanges under study; and

- what are the determinants of corporate disclosure levels in the countries that we
study.

$$TDS_{jit} = \alpha + \sigma FORESHARE_{jit} + \kappa'CONTROLS_{jit} + \upsilon_{it} \tag{4}$$

The inclusion of foreign share ownership also enables to infer the extent to which foreign share ownership is contributing to corporate governance institution in African Stock Markets. We test our expectations that foreign shareholders on the African markets are demanders of high corporate disclosures by a test of the statistical significance of the coefficient of *FORESHARE* in equation (4). We expect that $\sigma > 0$, implying that foreign share ownership leads to greater disclosures by domestic firms. The control variables in this model include leverage, size, volatility of earnings, age and profitability. Aksu and Kosedag (2006) argue that firm's that are able to meet their short-term financial obligations without recourse to the liquidation of their assets-in-place would disclose more to signal the firm's viability. Also, debt covenants often impose greater disclosures. Thus, leverage would be positively related to corporate disclosures. As firms grow in size, so is the need to disclose more as a public company hence size is expected to be positively related to corporate disclosure. And indeed, larger firms would be more capable of covering the direct and indirect cost of corporate disclosures than smaller firms. Profitability is also expected to be positively related to corporate disclosures because management when in possession of "good news" are more likely to disclose more detailed information to the stock market than "bad news" companies to avoid undervaluation of their shares (Inchausti, 1997).

5. Empirical results
5.1 Descriptive statistics
We present in Table I descriptive statistics on key variables of interest in the study. The descriptive statistics are presented by country.

Overall mean score for Ghana is 48.84 per cent with the highest discourse score being 74 per cent of the items expected to be disclosed. Kenya had the highest overall mean of 55.24 per cent followed by Nigeria with 53.64 per cent. In terms of foreign share ownership, Ghana has the highest overall mean of 31.92 per cent followed by Kenya with 10.77 per cent and Nigeria with only 7.14 per cent. Descriptively, Ghana is more favoured in terms of foreign equity participation compared to the other sampled countries.

5.2 Corporate disclosure, foreign share ownership and firm value
Table II presents our results on the estimation of equation (2). The table presents results on the determinants of foreign share ownership and the relation between disclosure and firm valuation. Given the structure of our data, it is possible that there is correlation in the residuals within firms in the same country. There is also the possibility that different years have different effects on foreign investors' investments in these markets. Thus, in our estimation, we consider country-level fixed effects and country-year fixed effects in our test of the disclosure relation with foreign share ownership. We also estimate our model using either dividend yield or return on equity, *ROE* as a performance proxy. Columns FShare(1) and FShare(2) are results that controls for country fixed effects and columns FShare(3) and FShare(4) are results based on country-year fixed effects. The results for DIV and MTBV also control for country fixed effects. The coefficients of the country-year fixed effects are excluded in the presentation in Table II for brevity. Those coefficients show significant year effects mostly for the Nigerian sample. The full table showing these coefficients are reported in the Appendix.

Variable	Mean	Standard	Minimum	Median	Maximum	Count
Ghana						
TDS	48.835	9.758	32.222	47.253	74.00	158
FORESHARE	31.918	34.394	0.000	17.695	90.240	158
ROE	0.226	0.242	−0.510	0.209	0.864	158
LEV	0.902	0.936	0.006	0.820	7.447	158
LMVE	11.303	0.930	9.479	11.366	14.077	140
MTBV	2.099	2.988	0.171	1.001	20.846	158
DIVYIELD	0.046	0.092	0.000	0.021	0.880	158
RISK	4.488	7.348	0.060	3.310	61.890	127
Nigeria						
TDS	53.642	8.685	23.000	53.680	85.00	612
FORESHARE	7.141	18.812	0.000	0.000	78.640	657
ROE	0.114	0.125	0.000	0.070	0.821	621
LEV	0.513	0.678	0.000	0.418	8.882	633
LMVE	5.269	0.896	2.290	5.234	8.798	629
MTBV	1.054	0.504	0.060	0.970	5.010	573
DIVYIELD	3.764	3.316	0.000	3.280	21.430	550
RISK	4.051	5.494	0.060	3.290	58.810	579
Kenya						
TDS	55.244	9.043	29.770	54.665	77.830	242
FORESHARE	10.773	21.512	0.000	0.040	90.200	270
ROE	0.053	0.092	−0.680	0.037	0.471	237
LEV	0.495	1.616	0.000	0.122	18.375	231
LMVE	9.332	0.823	6.621	9.421	11.610	237
MTBV	1.126	0.590	0.360	1.010	5.010	228
DIVYIELD	2.951	3.025	0.000	2.100	16.670	221
RISK	3.493	2.317	0.070	3.110	25.050	216

Notes: This table presents the descriptive statistics of our analysis variables. TDS is disclosures score as defined in equation (1). FORESHARE is foreign share ownership, ROE is return on equity, LEV is leverage, Size is the natural logarithm of market value, and MTBV is the market-to-book ratio. Market values are taken at the end of the year. RISK is the standard deviation of earnings over the previous three years. The data covers the period 2000-2008 for 26 Ghanaian firms, 45 Kenyan firms and 109 Nigerian firms over the sample period. The data is hand collected from various sources includes corporate annual reports, company websites, and stock exchange reports in the three countries

Table I.
Descriptive statistics
of sample data

The results in Table II consistently show that disclosure score is negatively related to foreign share ownership, and the negative relation is statistically significant at conventional levels. Market-to-book is weakly negatively related to foreign share ownership. As expected, firm size has a positive and statistically significant relation with foreign share ownership. ROE in Table II shows a positive correlation with foreign share ownership likewise free cash flow but these correlations are not statistically significant. Leverage is negatively correlated with foreign share ownership and the relation is statistically strong and significant. The size relation obviously suggests that foreign investors tend to investor in larger local firms, but do not take greater stakes in local firms with higher leverage ratios. Our results suggest a 1 per cent increase in leverage leads to about 2 per cent decrease in foreign share ownership. The negative

Table II.
Disclosure, foreign
share ownership and
firm value

Variables	FShare (1)	FShare (2)	DIV	MTBV	FShare (3)	FShare (4)
Disclosure score %	−0.2379*** (−2.602)	−0.3300*** (−3.498)	0.0056 (0.421)	−0.0038 (−0.913)	−0.2354** (−2.544)	−0.3204*** (−3.358)
ROE	7.1424 (1.598)		−0.9606 (−1.493)	0.4203** (2.066)	7.6065* (1.666)	
Market-to-book	−1.5585* (−1.821)	−1.6005* (−1.866)	0.1785 (1.477)		−1.5983* (−1.797)	−1.6520* (−1.850)
Size	4.0027*** (3.865)	3.8674*** (3.560)	−0.0777 (−0.504)	−0.1824*** (−3.902)	4.0713*** (3.777)	3.9794*** (3.506)
Bankruptcy risk	−0.0964 (−0.541)	−0.1088 (−0.611)	−0.0194 (−0.775)	0.0415*** (5.203)	−0.0990 (−0.544)	−0.1037 (−0.571)
Free cash flow	0.2895 (0.707)	0.1529 (0.359)	0.1300** (2.171)	−0.0124 (−0.665)	0.2985 (0.719)	0.1646 (0.381)
Leverage	−2.5396*** (−2.952)	−2.2201** (−2.537)	0.1286 (1.045)	0.0959** (2.453)	−2.5474*** (−2.913)	−2.2054** (−2.477)
Dividend yield		−0.1377 (−0.471)				−0.1906 (−0.644)
Constant	−1.3776 (−0.150)	5.6056 (0.581)	3.0117** (2.217)	2.4067*** (5.907)	3.8188 (0.272)	10.1939 (0.699)
Observations	664	601	592	664	664	601
R^2	0.222	0.244	0.202	0.115	0.227	0.253

Notes: This table present results of pooled regressions across firms and countries; the column headings indicate the dependent variable in the estimation. Disclosure score is defined in equation (1) in the text, ROE is return on equity, and foreign share ownership is the proportion of shares held by non-resident foreign investors. The regressions control for country-fixed effects – columns 1 through 4, and country-year fixed effects in columns FShare (3) and FShare (4). The data are hand collected and cover the period 2000-2008. t-statistics are in parentheses and the asterisks ***, **and * indicate statistical significance at 1, 5, and 10%, respectively

market-to-book (a proxy for investment opportunities) relation with foreign share ownership suggests that higher market-to-book (growth firms) is associated with lower foreign share ownership, suggesting foreign ownership is high among value firms in the sample. Growth is highly risk, and perhaps, foreign investors shy from local firms of such nature in order not to compound the foreign investment risk they would be exposed to in investing abroad. Foreign share ownership is also associated with lower dividends given the negative coefficient on foreign share ownership in the dividend yield regression. This suggests that foreign share ownership is perhaps associated with firms that pay little dividends. The results suggest that free cash flows are positively correlated with foreign share ownership even though this correlation is not statistically significant in our sample.

Is disclosure related to firm value in the sample? The results of our test to provide insights on this question are reported in columns *Divyield* and *MTBV* in Table II. We use dividend yield as proxies for value, this reflects investors' investment performance. *MTBV* is also used in the literature as a measure of a firm's investment opportunity set or as a proxy for Tobin's Q. The results reported in Table II suggest that disclosure is positively correlated with dividend yield and negatively correlated with market-to-book, but these correlations are not statistically significant. These results suggest that disclosure is not related to firm value or that disclosure is not value relevant in our sample. The negative disclosure score correlation with market-to-book value perhaps reflect the fact that given the possibility of competitive threat, firms with better investment opportunities tend to disclose less. With regards to ROE, the results suggest a statistically significant positive relation with market-to-book, so also are leverage and earnings volatility. Size is, however, negatively related to market-to-book. The results suggest that profitable firms tend to have greater investment opportunities. Such firms are likely to have higher earnings volatility and may tend to be smaller firms. This consistent is with a number of studies in the literature that growth firms tend to be small, and also have greater investment opportunity set. With respect to free cash flow, the results suggest that free cash flows are positively associated with higher dividend yields, suggesting that firms with greater free cash flows then to pay more dividends. But the negative correlation between free cash flows and market-to-book suggests that firms with higher cash flows tend to have fewer investment opportunities or that investors prefer that firms pay dividends instead of hold on to cash flows.

In relation to prior literature, both Bokpin and Isshaq (2009), and Mangena and Tauringana (2007) report a positive and statistically significant relation between foreign share ownership and firm size.

Disclosures scores are also positively correlated with earnings volatility, indicating that firms facing higher volatile earnings risk tend to disclose less, showing evidence of contentions that management are susceptible to hiding "bad news" (Inchausti, 1997).

5.3 Testing for nonlinearities in disclosure-foreign share ownership relation
Is there an optimal level of disclosure where foreign share ownership is concerned? We test for nonlinearities in the relation between disclosure and foreign share ownership. The analysis is important because we are able to offer further insights into the behaviour foreign share ownership for a given level of corporate disclosure. Also, given that disclosure could be have adding or destroying as argued in the literature, the analysis in section of significant importance to further our standing of the disclosure –

foreign share ownership relation, and the valuation implications of corporate disclosures on the African stock markets. We report in Table III results that incorporate the square of disclosure score to test for possible nonlinearities in the relation between disclosure and foreign share ownership. The estimation follows the same controls for country fixed effects and country-year fixed effects as in Table II. The results in Table III show that the negative disclosure coefficient is no longer statistically significant upon including the nonlinear term, disclosure score square. The nonlinear term, disclosure score square, is also not statistically significant even though the correlation is positive. The results suggest that foreign share ownership tend to increase if disclosure reaches almost 100 per cent. The indication is that disclosures by local firms do not tend to lead to increased foreign share ownership until there is greater satisfaction with overall disclosures on all key items that investors would need disclosed based on the questionnaire we used to obtain the disclosure scores for this study. But these interpretations should be taken cautiously since the coefficients are not statistically significant.

With respect to the dividend yield and market-to-book relation with disclosures, our test results in columns DIV and MTBV of Table III, indicate that disclosures tend to be negatively related to market-to-book value after a maximum 53.7 per cent [0.0215/(2 × 0.0002)] given the negative coefficient on the square of disclosure in the MTBV model. The results have the caveat that it should be cautiously interpreted since the coefficients are not statistically significant. Nonetheless, the results are indicative of positive valuation effect of disclosures up to a certain points. Thus, there is theoretically an optimal level of disclosure.

We have controlled for country fixed effects, and country-year fixed effects. What we have not done is test for the effects on within firm correlations, of firm fixed effects. Table IV below reports our result with controls for country-year fixed effects and firm-fixed effects (or firm heterogeneity). The importance of this analysis is that even though country level factors are not important in the results above, firms may have particular features that attract foreign non-resident investors to hold a firm's shares in the domestic market. This unobserved firm-level heterogeneity (firm-fixed effects) could have implications reported above.

Table IV reports results for ROE and dividend yield as measures of performance. The first two columns of results exclude disclosure score square, and the last two columns include disclosure score square. The results contrast the earlier results in Tables II and III. The results in Table IV suggest a positive relation between corporate disclosures and foreign share ownership. The only problem is that these coefficients are not statistically significant. Indeed, the nonlinear term, disclosure score square, has negative coefficients, indicating that corporate disclosures tend to negatively impact foreign share ownership only after a maximum point. The obviously statistically significant determinant of foreign share ownerships is size, which is statistically significant in all the models in Table IV. The control variables maintain similar coefficient signs as in the previous results but are not statistically significant. The leverage variable coefficient is no longer coefficient across the various model specifications.

5.4 Country-by-country analysis
To gain insight on the country differences in the relation between corporate disclosures and foreign share ownership, we conduct country by country analysis. The analysis

Variables	FShare (1)	FShare (2)	DIV	MTBV	FShare (3)	FShare (4)
Disclosure score %	−0.4717 (−0.724)	−0.5656 (−0.862)	−0.0353 (−0.382)	0.0215 (0.725)	−0.5215 (−0.786)	−0.6590 (−0.983)
Disclosure score % square	0.0021 (0.363)	0.0021 (0.363)	0.0004 (0.447)	−0.0002 (−0.862)	0.0026 (0.436)	0.0030 (0.510)
ROE	7.0514 (1.574)		−0.9766 (−1.515)	0.4297** (2.109)	7.4900 (1.637)	
Market-to-book	−1.5480* (−1.807)	−1.5893* (−1.851)	0.1807 (1.492)		−1.5812* (−1.775)	−1.6284* (−1.820)
Size	4.0547*** (3.876)	3.9310*** (3.570)	−0.0660 (−0.422)	−0.1879*** (−3.981)	4.1433*** (3.797)	4.0856*** (3.538)
Earnings volatility	−0.0974 (−0.546)	−0.1096 (−0.615)	−0.0195 (−0.779)	0.0416*** (5.209)	−0.1009 (−0.553)	−0.1057 (−0.581)
Free cash flow	0.2967 (0.724)	0.1580 (0.370)	0.1309** (2.184)	−0.0132 (−0.705)	0.3070 (0.738)	0.1710 (0.396)
Leverage	−2.5213*** (−2.924)	−2.1999** (−2.507)	0.1321 (1.070)	0.0938** (2.394)	−2.5252*** (−2.881)	−2.1759** (−2.437)
Dividend yield		−0.1398 (−0.477)				−0.1945 (−0.656)
Constant	4.5601 (0.243)	11.4949 (0.608)	4.0312 (1.517)	1.7604** (2.062)	10.6019 (0.506)	17.9676 (0.852)
Observations	664	601	592	664	664	601
R^2	0.222	0.244	0.202	0.116	0.227	0.253

Notes: This table presents result of tests of nonlinearities in the relation between disclosure and foreign share ownership, and also between disclosure and dividend yield, and market-to-book value; the column headings indicate the dependent variable in the estimation. Disclosure score is defined in equation (1) in the text, ROE is return on equity, and foreign share ownership is the proportion of shares held by non-resident foreign investors. The regressions control for country-fixed effects–columns 1 through 4, and country-year fixed effects in columns FShare (3) and FShare (4). The data are hand collected and cover the period 2000-2008. t-statistics are in parentheses and the asterisks ***, **,and *indicate statistical significance at 1, 5, and 10%, respectively

Table III.
Testing for
nonlinearities in
disclosure-foreign
share ownership
relation

Variables	1	2	3	4
Disclosure score %	0.1108 (1.071)	0.0945 (0.975)	0.1778 (0.318)	0.1164 (0.225)
ROE	−0.8246 (−0.248)		−0.8171 (−0.246)	
Market-to-book	−0.0653 (−0.100)	−0.0884 (−0.149)	−0.0633 (−0.097)	−0.0877 (−0.148)
Size	4.7492** (2.435)	4.5182** (2.382)	4.7540** (2.435)	4.5196** (2.380)
Earnings volatility	0.0328 (0.294)	0.0543 (0.536)	0.0325 (0.292)	0.0543 (0.535)
Free cash flow	0.0446 (0.125)	−0.0794 (−0.243)	0.0429 (0.120)	−0.0800 (−0.245)
Leverage	0.0175 (0.030)	−0.1934 (−0.318)	0.0194 (0.033)	−0.1924 (−0.316)
Dividend yield		−0.2237 (−1.133)		−0.2239 (−1.132)
Disclosure score % square			−0.0006 (−0.122)	−0.0002 (−0.043)
Constant	−26.1656* (−1.745)	−22.4550 (−1.494)	−28.0823 (−1.291)	−27.1022 (−1.286)
Observations	664	601	664	601
R^2	0.838	0.874	0.839	0.874

Notes: This table presents result of tests of nonlinearities in the relation between disclosure and foreign share ownership, and also between disclosure and dividend yield, and market-to-book value; the column headings indicate the dependent variable in the estimation. Disclosure score is defined in equation (1) in the text, ROE is return on equity, and foreign share ownership is the proportion of shares held by non-resident foreign investors. The regressions control for country-fixed effects–columns 1 through 4, and country-year fixed effects in columns FShare (3) and FShare (4). The data are hand collected and cover the period 2000-2008. *t*-statistics are in parentheses and the asterisks; **and *indicate statistical significance at 5, and 10%, respectively

Table IV.
Results from controlling for country-year and firm-fixed effects

helps understand the country-level differences that are not clearly distinct from the foregoing analysis. The analysis also allows us to ascertain which country might be driving the results in the prior section. We estimate our foreign share ownership model with controls for firm-fixed effects by country. The results are reported in Table V. The results consist of two model specifications: one with the inclusion of the square of disclosure score – the last three columns of Table V – and the other without the square of disclosure score – reported in the first three columns. Column headings indicate country. The estimation is based on ROE as the proxy for firm performance. The results in first three columns of Table V show that the negative disclosure-foreign share ownership relation in Tables II and III is predominantly from Ghana and Kenya sample. The Nigerian sample shows positive and a statistically insignificant disclosure-foreign share ownership relation. Also, in this set of results, the Nigerian sample ROE is strongly positively related to foreign share ownership but not for Ghana and Kenya. The negative leverage-foreign share ownership relation is not statistically significant within the Kenyan sample, whilst the negative market-to-book foreign share ownership relation is only significant for the Kenya sample. The positive size relation is also only significant for the Nigerian sample while free cash flows are positive in the Kenya but not the other two countries.

When the square of disclosure is included in the analysis, the last three columns of Table V, a different pattern emerges. Disclosure score is positively and strongly significant as a determinant of foreign share ownership for Ghana. For Kenya and Nigeria, disclosure has a negative and statistically insignificant relation with foreign share ownership. When we consider disclosure score, for Ghana, the coefficient of disclosure score square is negative and statistically significant, while for Nigeria and

Variable	Ghana	Kenya	Nigeria	Ghana	Kenya	Nigeria
Disclosure score %	−0.5995* (−1.82)	−0.6582*** (−3.07)	0.0351 (0.35)	9.2712*** (2.99)	−3.4198 (−1.66)	−0.2131 (−0.33)
ROE	−14.0954 (−0.90)	0.2044 (0.01)	14.0855*** (3.33)	−19.4276 (−1.29)	5.1884 (0.17)	13.9243*** (3.27)
Leverage	−6.8790** (−2.09)	−0.6243 (−0.56)	−3.8622** (−2.43)	−9.2395*** (−2.87)	−0.4820 (−0.43)	−3.8342** (−2.41)
Market-to-book	−0.3652 (−0.21)	−9.1343** (−2.23)	1.7445 (0.96)	−0.3761 (−0.22)	−9.1328** (−2.23)	1.6998 (0.93)
Size	4.6392 (1.15)	0.7261 (0.25)	4.6298*** (4.20)	3.4655 (0.89)	0.6495 (0.23)	4.6895*** (4.21)
Earnings volatility	−0.3997 (−0.90)	0.9411 (1.38)	0.0386 (0.19)	−0.3759 (−0.88)	0.9093 (1.33)	0.0337 (0.17)
Free cash flow	−1.5966 (−0.28)	2.0430** (2.20)	−0.0884 (−0.24)	−0.5275 (−0.10)	2.0041** (2.16)	−0.0775 (−0.21)
Disclosure score % square				−0.0954*** (−3.20)	0.0245 (1.34)	0.0022 (0.39)
Constant	23.9148 (0.55)	45.4218 (1.34)	−21.6896** (−2.54)	−204.4624** (−2.48)	121.8820* (1.84)	−15.0513 (−0.79)
Observations	110	141	413	110	141	413
Adjusted R^2	0.012	0.097	0.066	0.098	0.103	0.064

Notes: This table presents results on country-by-country analysis of the disclosure-foreign share ownership relation. Disclosure score is defined in equation (1) in the text. ROE is return on equity, and foreign share ownership is the proportion of shares held by non-resident foreign investors. The regressions control for firm-fixed effects. The data are hand collected and cover the period 2000-2008. *t*-statistics are in parentheses and the asterisks ***, **and * indicate statistical significance at 1, 5, and 10%, respectively

Table V.
Country-by-country
analysis of the
disclosure-foreign
share ownership
relation

Kenya, disclosure score is positive and statistically insignificant. The Ghanaian sample results suggest the maximum of disclosure score positive relation with foreign share ownership is reached at about 48 per cent in terms of our disclosure. Then Kenya and Nigeria sample suggests the opposite. Thus, the earlier results in Table IV, was perhaps driven by the Kenya and Nigeria samples. It is also worthy of note that the regression R^2 in Table V with the inclusion of the disclosure score square are significantly higher than the estimation excluding the quadratic term for all the countries. That is, the inclusion of the square of discloses score is important in the modelling of the disclosure-foreign share ownership relation.

The control variables mostly show expected signs with varying statistical significance. Return on equity show an insignificant relation with foreign share ownership for Ghanaian sample, positive and insignificant for Kenyan sample and positive and statistically significant in the case of Nigeria. Market-to-book is negatively foreign share ownership for Ghana (insignificant) and Kenya (significant). Firm size is only significant for the Nigerian sample. Overall, the results in Table V suggest that in Ghana and Kenya, foreign share ownership is negatively related to disclosures. But leverage is only important for foreign share ownership in Kenya and Nigeria. Profitability is strongly important for share ownership in Nigerian likewise size. Free cash flows are, however, important in foreign share ownership in Kenya but not Ghana and Nigeria. These differences could be attributed to differences in legal, regulatory, accounting standards, cultural and institutional requirements. Harmonisation of accounting policies and standards, legal and regulatory framework for African Stock Markets might eliminate these differences. Nonetheless, these differences also warrant further study into regional variations in the foreign share ownership patterns in Africa. For example, what distinguishes the dynamics of foreign share ownership flows in East African from that of West Africa?

5.5 Disaggregating disclosure score
Our disclosure in the above analysis uses an index of disclosures with respect to the ownership structure such as who are the top 20 or other block shareholders. The measure also includes financial reporting disclosures, and last disclosures on board composition, performance, and effectiveness. What we do in this section is to estimate our foreign share ownership model with the disaggregate scores on the three components of our disclosure score to ascertain which categories of disclosures could be driving our results. The results are present in Table VII below. The regressions are based on controls for country-year and firm fixed effects.

Column 1 of Table VI reports results with ROE as the performance proxy and column 2 is results for dividend yield as a performance indicator. The results in Table VI above shows that the negative disclosure score relation with foreign share ownership observed in the prior analysis is largely due to disclosures about ownership. Disclosures about the board and financials tend to have a positive correlation with foreign share ownership even the coefficients are not statistically significant. Further, of the control variables, only size is statistically significant and its coefficient is positive as found in the prior analysis. Market-to-book is now statistically insignificant so also leverage which all showed statistical significant in the prior analysis.

Variables	(1)	(2)
Ownership disclosures	−0.1785* (−1.773)	−0.1931* (−1.864)
Financial disclosures	0.1761 (0.794)	0.0785 (0.360)
Board disclosures	0.0013 (0.013)	0.0264 (0.256)
ROE	−0.7119 (−0.217)	
Market-to-book	−0.0391 (−0.061)	−0.0652 (−0.113)
Size	4.2427** (2.301)	4.1152** (2.256)
Earnings volatility	0.0287 (0.285)	0.0452 (0.501)
Free cash flow	0.0409 (0.120)	−0.0930 (−0.292)
Leverage	0.0066 (0.011)	−0.1157 (−0.193)
Dividend yield		−0.2603 (−1.359)
Constant	−20.4014 (−1.114)	−10.7332 (−0.602)
Observations	682	616
R^2	0.842	0.878

Notes: This table presents results on country-by-country analysis of the disclosure-foreign share ownership relation. Disclosure score is defined in equation (1) in the text, ROE is return on equity, and foreign share ownership is the proportion of shares held by non-resident foreign investors. The regressions control for firm-fixed effects. The data are hand collected and cover the period 2000-2008. t-statistics are in parentheses and the asterisks; **and *indicates statistical significance at 5, and 10%, respectively

5.6 Determinants of corporate disclosures
The next question we address is what determines disclosures scores in the sample and is there a feedback relation between disclosures and foreign share ownership? As the argued in the literature review, it is possible that firm local firms in developing countries disclose more to satisfy non-resident in response to demands by non-resident foreign investors to mitigate their informational disadvantage. We conduct our tests by estimating equation (4) including foreign share ownership, lag foreign share ownership, and foreign share ownership square in that order. Including foreign share ownership should pick up the contemporaneous relation between foreign share ownership and corporate disclosures but lag foreign share ownership allows test for any time lag in foreign share ownership stake take up and demand for improved disclosures. The including the square of foreign share ownership allows us to test for possible nonlinearities in the relation between foreign share ownership and disclosure scores. Also, in this section we test for persistence in corporate disclosures by including the lag of disclosure score in our analysis. The results are reported in Table VI below.

The results in Table VI consists of control for country fixed effects, and controls for country-year and firm fixed effects. The first three columns are based on controls for country fixed effects, and the last three columns are based on results with controls for country-year and firm fixed effects. The results in Table VI below shows that the lag disclosure is the most potent determinant of disclosure score in the sample whether we control for only country-fixed effects for country-year and firm fixed effects. Also important is that when foreign share ownership level is not related to disclosure scores in a statistically significant manner. Foreign share ownership square is not also statistically significant in all the estimation. However, the significant result is that foreign share ownership lag is negatively correlated with corporate disclosure when we

control for country-year and firm fixed effects in the sample. This suggests that there is a lag effect on the relation between corporate disclosure and foreign share ownership. The results of specific foreign share ownership have an influence on corporate disclosures after foreign investors have invested in local firms but not contemporaneously. One implication of this result if foreign ownership influences domestic firm disclosures there is a time lag in that relation. This is reasonable because, it suggests that after investing in a local firm foreign investors do impact the local firm's disclosure practices.

Indeed the results in Table VII show that controlling for country-year and firm fixed effects yields regressions R^2 values higher than just controlling for country fixed effects. Overall the results suggest that controlling for these unobserved effects is important in modelling the determinants of corporate disclosures in cross-country studies[3]. Further, we present below results on country-by-country analysis of the determinants of disclosure scores. The results are based on regressions with controls for firm-fixed effects.

The results in Table VIII show that disclosures are persistent in Nigeria given the statistically significant positive coefficient of lag disclosure score. The table shows that the negative lag effect of foreign share ownership on corporate disclosures is statistically significant only in Kenya, while for Ghana, the coefficient positive and insignificant. Earnings volatility is weakly statistically significant and positively related to corporate disclosures for the Kenya sample, while free cash flows are positive and weakly significantly related to corporate disclosures for the Nigerian sample. Our model does not seem to explain the determinants of corporate disclosures even though the model R^2 is greater than the other two countries. That suggests a large part of disclosures for the Ghanaian firm is fairly constant. Also for Kenya, size has a positive and statistically significant coefficient but size has negative and insignificant coefficients for Ghana and Nigeria. Disclosures entail a lot of cost and it is reasonable to expect large firms to be able to meet these costs and hence disclose more.

6. Conclusions, implications and recommendations
Corporate disclosures are important for the simple fact that it helps mitigate information asymmetry between company insiders and outsiders. The literature largely considers corporate disclosures as a value relevant activity with caveats that beyond an optimal level, corporate disclosures may be providing ammunition to the competition. Corporate disclosures also become important when company outsiders are not domiciled in the same country as the company insiders. This is the case with non-resident foreign investors in African Stock Markets. In this study, we seek to under the relation between corporate disclosures and foreign share ownership in African using data on Ghana, Kenya and Nigeria. Using hand-collected data on disclosures on key company information with respect to ownership, financial reporting standards and board management over 2002 to 2008, we test the relation between foreign share ownership and corporate disclosures. The increase sample allows providing insights beyond Bokpin and Isshaq (2009), Tsamenyi et al. (2007). Indeed, our study, to the best of our knowledge, is the first study across African Stock Markets.

Controlling for various sources of unobserved heterogeneity on the three dimensions of our data – country, time and firm – our results overwhelming shows a positive

Variable	(1)	(2)	(3)	(4)	(5)	(6)
Foreign share ownership	−0.0050 (−0.47)	0.0147 (0.76)	0.0167 (0.43)	0.0075 (0.37)	0.0232 (1.12)	0.0960 (1.29)
Lag disclosure score	0.8082*** (33.24)	0.8083*** (33.26)	0.8071*** (33.08)	0.2666*** (5.88)	0.2607*** (5.82)	0.2639*** (5.81)
ROE	0.6247 (0.38)	0.8007 (0.49)	0.5706 (0.35)	−0.2687 (−0.15)	−0.1479 (−0.08)	−0.1071 (−0.06)
Dividend yield	0.1039 (1.39)	0.1021 (1.37)	0.1053 (1.41)	0.0456 (0.52)	0.0203 (0.23)	0.0504 (0.58)
Market-to-book value	−0.0624 (−0.27)	−0.0802 (−0.35)	−0.0659 (−0.29)	0.0600 (0.24)	0.0261 (0.11)	0.0578 (0.23)
Size	0.1635 (0.57)	0.1879 (0.65)	0.1421 (0.49)	−0.5607 (−0.62)	−0.4578 (−0.51)	−0.4704 (−0.52)
Earnings volatility	−0.0002 (−0.00)	0.0003 (0.01)	−0.0012 (−0.03)	0.0162 (0.35)	0.0164 (0.36)	0.0206 (0.45)
Free cash flows	0.0546 (0.52)	0.0557 (0.53)	0.0501 (0.48)	0.2830 (1.36)	0.3312 (1.60)	0.3064 (1.46)
Lag foreign share ownership			−0.0003 (−0.58)			−0.0014 (−1.24)
Foreign share ownership square		−0.0234 (−1.21)			−0.1010*** (−3.19)	
Constant	8.7517*** (3.47)	8.6144*** (3.41)	8.9531*** (3.51)	41.5990*** (5.79)	42.4041*** (5.90)	41.0182*** (5.62)
N	504	504	504	504	504	504
Adjusted R^2	0.713	0.713	0.713	0.817	0.822	0.818

Notes: This table reports results on the determinants of corporate disclosure scores. The dependent variable in all the models is corporate disclosure score. Disclosure score is defined in equation (1) in the text, ROE is return on equity, and foreign share ownership is the proportion of shares held by non-resident foreign investors. The regressions control for country-fixed effects–columns 1 through 3, and country-year and firm-fixed effects in columns 4 through 6. The data are hand collected and cover the period 2000-2008. t-statistics are in parentheses and the asterisks ***indicate statistical significance at 1%

Table VII.
Determinants of
corporate disclosure
score

Variables	Ghana	Kenya	Nigeria
Foreign share ownership %	0.0009 (0.033)	0.0275 (0.491)	0.0321 (1.558)
Lag foreign share ownership %	0.0185 (0.315)	−0.1675*** (−3.344)	−0.0626 (−1.283)
Lag disclosure score %	0.0947 (1.670)	0.0900 (0.887)	0.3824*** (7.210)
ROE	0.8031 (0.779)	2.1776 (0.237)	−0.4064 (−0.262)
Market-to-book	−0.0212 (−0.182)	0.4225 (0.322)	−0.0176 (−0.025)
Leverage	0.1153 (0.425)	0.0038 (0.016)	−0.1350 (−0.266)
Size	−0.2209 (−0.378)	2.5473* (1.683)	−0.3791 (−0.380)
Earnings volatility	−0.0073 (−0.209)	0.3235* (1.753)	−0.0635 (−1.090)
Free cash flow	−0.2965 (−0.724)	0.2874 (0.914)	0.5014* (1.845)
Constant	46.7330*** (6.524)	27.4356* (1.733)	34.5384*** (5.554)
Observations	94	117	352
R^2	0.983	0.889	0.827

Notes: This table reports results on the determinants of corporate disclosure scores by country. The dependent variable in all the models is corporate disclosure score. Disclosure score is defined in equation (1) in the text, ROE is return on equity, and foreign share ownership is the proportion of shares held by non-resident foreign investors. The data are hand collected and cover the period 2000-2008. t-statistics are in parentheses and the asterisks ***, ** and *indicate statistical significance at 1, 5, and 10%, respectively

Table VIII.
Country-by-country
analysis disclosure
score determinants

relation between firm size and foreign share ownership and a negative relation between corporate disclosures and foreign share ownership, when the relation is modelled as a linear relation. When we model a quadratic relation, we do not obtain statistically significant disclosure effect on foreign share ownership. Our further analysis shows that country level and time effects are largely responsible for the effects we observed. For example, modelling a quadratic disclosure–foreign share ownership relation, we find that a positive significant quadratic relation for Ghana that is inverted U-shaped which contrasts results for Kenya and Nigeria. Disaggregating disclosure scores into its three components, however, shows that negative relation we uncovered earlier is driving by disclosures about ownership.

The overall implication of the foregoing is that foreign investors do want improved disclosures on financial reporting (in general higher financial reporting quality) and board management, they may be wary of detailed ownership disclosures. This is a significant result. The countries we study still have shaky democratic institutions particularly during the study period, and foreign investors are right to be worried. For example, foreign investments in Nigeria's oil-rich regions are more exposed to local contempt if media reports are to be believed. On a broad scale, the results explain why countries with stringent protections of investor identity still tend to attract large offshore investments and fund managers. We believe that the evidence of this study suggests that corporate disclosure-foreign share ownership is more complicated than commonly assumed. On the determinants of corporate disclosures, we find that non-resident foreign investors tend to influence local disclosures with a time lag. That is, domestic firms tend to modify disclosures after foreign investors take up stake in a local firm. This is an important indication that foreign share ownership has implications for the transparency in the local economy.

The results of our study have a number of implications for policy and for local investors firms who would want to pursue foreign investors. The crucial ingredients at the firm level are for firms to beef up reports on board management and to adopt more stringent financial reporting standards. Of course, there is the need to balance the costs implications of these activities. Reporting on board management would confidence to foreign investors on the prudent management of affairs at local firms. The policy implications concern the amount important of information on ownership that should be made publicly available. Records on investors needs be kept according to the standards of international practices. But it is one thing to record and another to disclose. The African Government should weigh-up the benefits of public disclosures of ownership interest particular foreign share ownership interest.

Notes

1. Such as corruption perceptions and openness to foreigners

2. Several theories of corporate disclosure exist. They include: the agency and political costs theories (Jensen and Meckling, 1976; Watts and Zimmerman, 1978, 1990), signalling theory (Ross, 1977; Morris, 1987), institutional theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Oliver, 1997), legitimacy theory (Carpenter and Feroz, 1992, 2001; Guthrie and Parker, 1990; Mezias, 1990), proprietary costs theory (Dye, 1985; Darrough and Stoughton, 1990; Verrecchia, 1983; Wagenhofer, 1990), contingency theory (Doupnik and Salter, 1995; Fechner and Kilgore, 1994; Gray, 1988, and the positive accounting theory (Watts and Zimmerman, 1978).

3. One may argue that we should estimate the foreign share ownership and disclosure models jointly. But this is not warranted, as we do not have reason to impose restrictions on the coefficients the two models. Thus, any simultaneous model regression results may liable to possible biases.

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Appendix

Variables	Ghana Foreshare	Kenya Foreshare	Nigeria Foreshare
Disclosure score %	−0.3437 (−1.171)	−0.4545* (−1.761)	−0.2480** (−2.209)
ROE	1.3376 (−0.097)	85.5273*** (−2.860)	0.0414 (0.068)
Dividend yield	−0.1919 (−0.008)	−0.1259 (−0.465)	0.1484 (0.545)
Leverage	−5.3572 (−1.402)	−11.1495 (−1.082)	−1.7708 (−1.378)
Share price	0.0000 (0.091)	0.0697** (1.988)	0.0004 (0.078)
Market-to-book	−2.1926** (−2.056)	−8.8697** (−2.041)	1.6082 (0.693)
Size	1.5718 (1.485)	1.9944 (0.930)	2.8726* (1.935)
Bankruptcy risk	0.2867 (0.403)	−0.6337 (−0.832)	0.3083 (0.695)
Free cash flow	−4.7636 (−0.781)	0.8604 (1.161)	−0.3508 (−1.344)
Constant	44.8832** (2.497)	22.0994 (0.771)	2.6875 (0.303)
Observations	122	74	239
R-squared	0.122	0.444	0.048

Notes: This table presents results of country-by-country regressions with year-fixed effects. The asterisks ***, **, and *, denotes statistical significance at the level of 1, 5 and 10%

Table AI.
Country by country regressions with year-fixed effects

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