Received 9 September 2008
Revised 27 February 2009
Accepted 27 March 2009

Corporate governance, disclosure and foreign share ownership on the Ghana Stock Exchange

Godfred A. Bokpin
Department of Finance, University of Ghana Business School, Legon, Ghana, and

Zangina Isshaq
Department of Accounting and Finance, University of Cape Coast, Cape Coast, Ghana

Abstract

Purpose – The purpose of this paper is to examine the interaction between corporate disclosure and foreign share ownership on the Ghana Stock Exchange (GSE).

Design/methodology/approach – The paper follows the trinary procedure of Aksu and Kosedag and uses the Standard & Poor's transparency and disclosure items in the construction of the disclosure index. Therefore, the paper adopts a panel data analysis covering a period from 2002 to 2007 using the seemingly unrelated regression approach.

Findings – The results indicate a statistically significant interaction between corporate disclosures and foreign share ownership among the sample firms. The market value of equity and market-to-book value ratio is documented; free cash flow and financial leverage have statistically significant relationships with foreign share ownership.

Originality/value – This is the first of its kind in the country that considers the impact of corporate governance and disclosure on foreign share ownership despite the numerous studies carried out on the GSE.

Keywords Corporate governance, Disclosure, Stock exchanges, Ghana, Shareholders

Paper type Research paper

Introduction

Corporate governance has become very important in the past decade. Well-governed firms have been noted to have higher performance (Kyereboah-Coleman *et al.*, 2006). It is also widely believed that corporate governance generates investor goodwill and confidence. The nature and structure of governance institutions are also hinged in the cultural context of the corporation. Empirical evidence suggests that foreign investors avoid investing in developing countries because of weak corporate governance practices (McKinsey and Company, 2001; Gibson, 2003). Maher and Anderson (1999) document that the corporate governance framework can impinge upon the development of equity markets, research and development, innovative activity, entrepreneurship, and the development of an active small and medium enterprises sector, and thus impinge upon economic growth.

According to Merton (1987), foreign investors generally prefer to invest in companies in which they are well informed and where their investments are well protected. In addition, they avoid companies in developing countries because of weak corporate

Managerial Auditing Journal
Vol. 24 No. 7, 2009
pp. 688-703

0268-6902
DOI 10.1108/02686900910975387

governance structures and disclosures (Mangena and Tauringana, 2007). Foreign investors growing interest in corporate governance was given a boost especially after the Asian financial crisis. Many studies have cited corporate governance failure as one of the main causes of the crisis (Johnson *et al.*, 2000; Becht *et al.*, 2003). Ramaswamy and Li (2001) have indicated that foreign investor participation in stock markets has increased following regulatory changes. Young and Guenther (2003) find that international capital mobility is associated with countries in which there is greater disclosure of value relevant accounting information (Salter, 1998).

Aksu and Kosedag (2006) suggest that transparency and disclosure practices followed by firms are an important component and a leading indicator of corporate governance quality (OECD, 1999). Beeks and Brown (2005) find that firms with high corporate governance quality make more informative disclosures. Therefore, firms with an institutionalized corporate governance structure would be more transparent than firms that have weaker corporate governance frameworks.

Much of the empirical literature on the impact of corporate governance and especially disclosures on foreign share ownership, have focused on developed capital markets or economies (Mangena and Tauringana, 2007). This presupposes that there is a dearth of literature from emerging markets such as Ghana. With the exception of Zimbabwe (Mangena and Tauringana, 2007), no scientific study has considered the impact of disclosures on foreign share ownership in Sub-Saharan Africa nor Ghana for that matter. Tsamenyi *et al.* (2007) looked at disclosure and corporate governance in Ghana considering the level of disclosure and transparency among Ghanaian listed firms and determinants of disclosure and transparency in Ghana. However, the study failed to examine the impact of corporate governance and disclosures on foreign share ownership.

This paper is unique as well by constructing a comprehensive disclosure transparency index for listed firms on the Ghana Stock Exchange (GSE) and examining its impact on foreign share ownership. Unlike Tsamenyi *et al.* (2007), our corporate governance index captures all major aspects of disclosure and transparency practices of firms on the GSE. But what does the international investor use in terms of corporate governance and disclosure issues to make investment decisions in emerging markets such as Ghana? It is in this context that this study seeks to broaden the literature by aiming to analyse disclosures and transparency practices in Ghana and to establish its impact on foreign share ownership. The remainder of the paper is organized as follows. Second section considers literature on the effects of corporate governance and disclosures on share ownership. Third section discusses data used in the study and also details the model specification used for the empirical analysis. Fourth section includes the discussion of the empirical results. Finally, fifth section summarizes and concludes the paper.

Literature review

The literature principally looks at issues of disclosure and corporate governance quality. Indeed, much of what a company discloses in its annual reports and financial statements are a litmus test of its corporate governance quality. This is affected by cultural and the regulatory framework and its international affiliations. Empirical evidence attests to the fact that international flow of capital is associated with information disclosure and corporate governance practices. Corporate governance as well can be a catalyst in securing the long-term survival of firms to attract foreign investment and therefore it underpins the capital structure of corporate entities. This section reviews literature focusing on the impact of disclosure on corporate governance and finally the relationship between disclosure and foreign share ownership.

Disclosure and corporate governance

The determinants of how much information a company discloses in its annual reports has been the subject of investigation by a number of studies. Haniffa and Cooke (2002) looked at the subject matter in terms of the influence of cultural factors on the quality of corporate governance. The quality of disclosure is very intertwined with the concept of corporate governance, such that the more a company discloses the better the level of transparency which are symptoms of quality corporate governance practices. Perera (1994) viewed this as being an accounting procedure which involves both human and non-human methodologies and know-how and the interface between these two. The influence of culture on disclosure can thus be seen from the interaction of the human side with the nonhuman resources and techniques.

Furthermore, what is disclosed is also a factor of the environment in which the company operates. Laws on mandatory corporate disclosures are governed in most countries by statute and other legislative instruments. In some countries, the laws are enshrined in securities markets rules and regulations and codes of best practice. Cooke and Wallace (1990) have referred to the environmental factors: the economy, accounting framework, culture and enforcement mechanisms, among others, as environmental determinism theory. That is, the level of disclosure has a contextual dimension. These factors at the environmental level will affect the standard information that is disclosed by companies.

Researchers have also been interested in factors at the firm-level that influence disclosure. Tsamenyi *et al.* (2007) find a significant but negative relationship between ownership (block holding) and disclosure. Their results suggest that firms with block shareholders disclosed more. Overall, their findings suggest that the ownership structure has an influence on corporate disclosure. However, they did not look at the influence of foreign ownership on corporate disclosure. The evidence of the influence of disclosure and foreign ownership relationship in developing countries is offered by Mangena and Tauringana (2007) in a study based on the Zimbabwe Stock Exchange. They found a positive association between foreign share ownership and independent audit committees and between foreign share ownership and institutional investors. These findings are in respect of companies with stronger or better corporate governance structures such as audit committees, which are corporate governance mechanisms. Mangena and Tauringana (2007) did find a significant relationship between voluntary disclosure and foreign share ownership. Tsamenyi *et al.* (2007) also find a similar relationship between ownership structure and voluntary disclosure and that, firms with multinational block holdings disclosed more compared to those with local block holdings, thus corroborating the evidence presented by Mangena and Tauringana (2007).

Furthermore, Tsamenyi *et al.* (2007) provide evidence that dispersion (the spread of shareholders) has a significant influence on disclosure. The argument is that when shareholders are dispersed then there is the need for monitoring and that can only be satisfied by increased transparency in corporate reports (disclosure). Bujaki and McConomy (2002) provide evidence that larger companies disclose more than smaller ones.

The arguments are that disclosures are costly, and small companies who might not be able to afford such costs tend to disclose less, further accentuating information asymmetry problems associated with smaller companies. These arguments are supported by Tsamenyi *et al.* (2007) who found evidence that firm size influenced disclosure. Corroborating evidence is provided by Aksu and Kosedag (2006) that those larger and profitable firms on the Istanbul Stock Exchange exhibited higher transparency and disclosure scores.

The Jensen and Meckling (1976) theory of free cash flows and agency problems have also been a theoretical basis for looking for the relationship between leverage and disclosure. Rahman (2002) argues that debtholders do not require the same amount of disclosure as shareholders; thus, leverage and disclosure would be negatively related. In the case of Ghanaian companies, Tsamenyi *et al.* (2007) find a positive correlation between disclosure and leverage, evidence they attributed to the minimal use of debt by companies on the exchange. Aksu and Kosedag (2006) also provide evidence of the significance of leverage in determining disclosure but that this relationship was negative as argued by Rahman (2002) in contrast to Tsamenyi *et al.* (2007).

Disclosures are also indicators of corporate governance framework quality (Aksu and Kosedag, 2006) and evidence provided by Beeks and Brown (2005) show that firms with strong corporate governance frameworks make more disclosures. Therefore, firms with an institutionalized corporate governance structure would be more transparent than firms that have weaker corporate governance frameworks. Aksu and Kosedag (2006) noted that disclosure has evolved to mitigate against the agency problem.

Disclosure and foreign share ownership

Disclosure and transparency influences the perception of investors and their willingness to invest in the entity. It is widely held that foreign investment is a mechanism for improving corporate governance, firm performance and profitability in the host country. On the other hand, studies have shown that corporate governance influences the direction and volume of foreign investment. Leuz *et al.* (2007) document that foreigners invest significantly less in firms which have ownership structures that are more conducive to governance problems and, at the same time, reside in countries with poor outsider protection and disclosure. Mangena and Tauringana (2007) also found a significant relationship between foreign share ownership and profitability, liquidity and size. Foreign investors' use of disclosure is underpinned by the fact that they are "informationally" disadvantaged as compared to domestic investors (Kang and Stulz, 1997; Choe *et al.*, 2005).

Lack of disclosure gives rise to an adverse selection problem when investors transact in foreign markets (Akerlof, 1970; Milgrom, 1981). Giannetti and Koskinen (2007) find that funds put a larger share of their assets in countries with better scores of private enforcement of investor rights (Chan *et al.*, 2005). Choe *et al.* (2005) find that for Korean stocks prices move more against foreign investors than domestic investors before trades. Fan and Wong (2002) have argued that poorly governed firms often actively hide the extent of their governance problems and expropriation activities, for instance, by providing opaque financial statements and managing earnings (Leuz *et al.*, 2003).

Klapper and Love (2004) argue that investors sufficiently discount shares of poorly governed firms so that all investors receive a fair return and therefore there is no holdings effect (Kalcheva and Lins, 2007). Mitton (2002), Lemmon and Lins (2003), and

Baek *et al.* (2004) offer evidence that Asian firms with high control ownership disparity experienced a sharper drop in share price during the Asian crisis.

Methodology

We approached this study having in mind the results of Tsamenyi *et al.* (2007) for the Ghanaian economy and Mangena and Tauringana (2007) for the sub-Saharan African evidence on disclosure and corporate governance. We also took into consideration the findings of Aksu and Kosedag (2006) for a broader look at emerging markets in respect to disclosure and corporate governance. In terms of disclosure scores, we follow the trinary procedure of Aksu and Kosedag (2006) and use the Standard & Poor's (S&P) transparency and disclosure items in contrast to the 36 items used by Tsamenyi *et al.* (2007). This allowed us to infer the quality of disclosure on the GSE at the international level, something not considered by Tsamenyi *et al.* (2007). Further, we consider two models: one based on the agency problem research methodologies as used by Aksu and Kosedag (2006). However, unlike Aksu and Kosedag (2006), and to consider the element of foreign share ownership, our second model adapts that of Mangena and Tauringana (2007). Following the S&P list and the studies of Mangena and Tauringana (2007), Tsamenyi *et al.* (2007), and Aksu and Kosedag (2006), disclosure is segmented into financial disclosures, corporate governance disclosures and voluntary disclosures.

The disclosure score of a firm is obtained following the equation below (Aksu and Kosedag, 2006, p. 286):

$$\mathrm{TDS}' = \sum_j \sum_k \frac{S_{jk}}{\mathrm{TOTS}}$$

where, j, the attribute category subscript, $j = 1,2,3$; k, the attribute subscript, $k = 1, \ldots, 106$; S_{jk}, the number of info items disclosed (answered as "yes") by the firm in each category; and TOTS, the total maximum possible "yes" answers for each firm.

Tsamenyi *et al.* (2007) conducted their study when there were only 25 firms on the GSE. Today there are 35 firms on the stock market. Further, unlike Tsamenyi, and as proposed by Aksu and Kosedag (2006), we use longitudinal data starting from 2002. The present study is thus differentiated from the previous study because this study pooled time series and cross-sectional data.

Aksu and Kosedag (2006) estimated the following model to test whether potential conflict of interest explains the disclosure scores of firms:

$$\mathrm{TDS}_{i,j} = \beta_0 + \beta_1 \frac{\mathrm{TL}}{\mathrm{TA}_i} + \beta_2 \mathrm{MVE}_i + \beta_3 \mathrm{MTB}_i + \beta_4 \mathrm{ROE}_i + \beta_5 \mathrm{FCF}_i + \varepsilon_i$$

where, TL/TA, total liabilities/total assets, a measure of leverage; MVE, market value of equity; MTB, market-to-book ratio; ROE, accounting measure of performance; and FCF, free cash flow.

Mangena and Tauringana (2007) on their part estimated the following model. The differences in emphasis of the two studies are reflected in the differences in the dependent variable in the two models:

$$\begin{aligned}\mathrm{FORESHARE} = {} & \beta_0 + \beta_1 \mathrm{DSCORE} + \beta_2 \mathrm{BSIZE} + \beta_3 \mathrm{PROPNED} + \beta_4 \mathrm{INSHARE} \\ & + \beta_5 \mathrm{TOP10SHARE} + \beta_6 \mathrm{ACSIZE} + \beta_7 \mathrm{ACIND} + \beta_8 \mathrm{MCAP} \\ & + \beta_9 \mathrm{ROE} + \beta_{10} \mathrm{LIQUID} + \beta_{11} \mathrm{GEAR} + \varepsilon_J\end{aligned}$$

The variables above are foreign share ownership (FORESHARE), voluntary disclosure (DSCORE), board size (BSIZE), proportion of non-executive directors (PROPNED), institutional share ownership (INSHARE), Top ten shareholders (TOP10SHARE), audit committee size (ACSIZE), audit committee independence (ACIND), market capitalization (MCAP), return on equity (ROE), liquidity (LIQUID), and gearing (GEAR).

In comparison, the two models show that differences are in respect of corporate governance variables such as audit committee size and independence, and proportion of non-executive directors. The construction of total disclosure share (TDS) by Aksu and Kosedag (2006) includes these variables in the measures. Their inclusion would bring about multi-colinearity problems. But market capitalization, liquidity and gearing (leverage) have been included in the foreign ownership equation of Mangena and Tauringana (2007) as control variables. Liquidity and gearing are combined into total liabilities to total assets as a measure of leverage (gearing) by Aksu and Kosedag (2006). Indeed, the variable TOP10SHARE, are also captured in the items for disclosure used by Aksu and Kosedag (2006). Aksu and Kosedag (2006) included free cash flow in their model, an item that is not captured in the model of Mangena and Tauringana (2007).

The synthesis of the two models brings out market capitalization (market value of equity), leverage and ROE as intersecting variables. We augment the two models in our estimation. Taking the disclosure model of Aksu and Kosedag (2006) we include foreign share ownership as a control variable. Doing so placed us in a position to answer the question posed by Aksu and Kosedag (2006) as to whether or not disclosure contributes to a firm and market's access to foreign capital. We adapt the model of Mangena and Tauringana (2007) by excluding the proportion of shares held by the top ten shareholders, combining liquidity and gearing into the broader measure of leverage – total liabilities over total assets. By adding time dimensions to the various equations, the following models are obtained:

$$\begin{aligned}\mathrm{TDS}_{it} = {} & \beta_0 + \beta_1 \frac{\mathrm{TL}}{\mathrm{TA}_{it}} + \beta_2 \mathrm{MVE}_{it} + \beta_3 \mathrm{MTB}_{it} + \beta_4 \mathrm{ROE}_{it} + \beta_5 \mathrm{FCF}_{it} \\ & + \beta_6 \mathrm{FORESHRE}_{It} + \varepsilon_{it}\end{aligned} \tag{1}$$

and:

$$\begin{aligned}\mathrm{FORESHARE}_{it} = {} & \beta_0 + \beta_1 \mathrm{TDS}_{it} + \beta_2 \mathrm{MVE}_{it} + \beta_3 \mathrm{ROE} + \beta_4 \frac{\mathrm{TL}}{\mathrm{TA}_{it}} + \beta_5 \mathrm{MTB}_{it} \\ & + \beta_6 \mathrm{FCF}_{it} + \varepsilon_{it}\end{aligned} \tag{2}$$

The full definition of all the variables are given in Table I and are in line with the definitions provided by Aksu and Kosedag (2006) and those of Mangena and Tauringana (2007). The addition of time dimension is to ensure that our study took longitudinal approach, a marked difference in approach to the above studies. The two-pronged model also put us in a position to attempt to answer whether there is an egg-and-chicken relationship between foreign share ownership and disclosure as posed by Mangena and Tauringana (2007) as one of the limitations of their study. The authors mentioned that their study failed to investigate a possible endogenous relationship between foreign share ownership and firm-level disclosure.

The combination of the two equations above yields linear systems equations involving panel data. This suggests that common panel data modeling such as fixed effects and random effects models would not be adequate. To obtain consistent estimates for the parameters the seemingly unrelated regression technique was implemented using STATA (sureg command).

Empirical results

Descriptive statistics

Table I provides the descriptive statistics of the dependent and the explanatory variables. It reports the overall mean, variations in the overall mean as well as the variations between and within the firms over the period. Overall, corporate governance, disclosure and transparency register an average score of 0.4877 and shows variations over the period across the sample size. The level of disclosure and transparency varies among the firms on the GSE and varies systematically over the six-year period as well. Free cash flow on the average records 0.3972 but there are variations in this figure as shown by the standard deviations in the overall sample, as well as between and within the firms. Financial leverage records overall mean of 0.9015, ROE also registers 0.2327 with market to book value ratio registering overall mean of 2.0989. There are variations in these variables as shown by their standard deviations.

Foreign share ownership on the GSE registers an overall mean of 31.9183 percent over the period with wide variations. Some firms on the GSE do not have foreign share ownership whilst the maximum foreign share ownership on the exchange was 90.24 percent. Market capitalization registers on the average 10.0155 but there are dispersions in this variable as revealed by the standard deviations.

Correlation analysis

We test for a possible degree of multi-collinearity among the regressors by including a correlation matrix of the variables in Table II. There is insignificant correlation between corporate governance, disclosure and transparency (TDS) and the rest of the variables but there is a positive and significant correlation between free cash flow and financial leverage. Financial leverage also exhibits a positive and statistically significant correlation with market to book value and a negative correlation with foreign share ownership. ROE portrays a positive correlation with market to book value ratio and a negative correlation with market capitalization, whilst a correlation exits between foreign share ownership and market capitalization. Overall, the magnitude of the correlation coefficients indicates that multi-collinearity is not a potential problem in the regression models and the data together with the model is appropriate for this type of study (Table III).

Symbol	Variable
TDS	Total disclosure score
FCF	Free cash flow
TLTA	Total liabilities to total assets – a measure of financial leverage
ROE	Return on equity – a measure of firm profitability
MTBV	Market to book value ratio
FORESHARE	Percentage of foreign ownership
LMVE	Logarithm of market value of firms – a measure of firm size

Table I.
Variable definition

Variable		Mean	SD	Min.	Max.	Obs.
TDS	Overall	0.4877	0.0962	0.3222	0.6889	$N = 158$
	Between		0.0967	0.3223	0.6833	$n = 27$
	Within		0.0237	0.2655	0.5574	T-bar = 5.8519
FCF	Overall	0.3972	0.5771	−3.4596	1.7987	$N = 158$
	Between		0.3904	−0.2470	1.3860	$n = 27$
	Within		0.4265	−2.8155	2.3179	T-bar = 5.8519
TLTA	Overall	0.9015	0.9361	0.0063	7.4469	$N = 158$
	Between		0.6509	0.1469	3.4964	$n = 27$
	Within		0.6785	−1.8006	4.8521	T-bar = 5.8519
ROE	Overall	0.2327	0.2504	−0.51	1.0433	$N = 158$
	Between		0.1433	−0.1058	0.4947	$n = 27$
	Within		0.2069	−0.4216	0.9646	T-bar = 5.8519
MTB	Overall	2.0989	2.9878	0.1708	20.8456	$N = 158$
	Between		2.4248	0.3832	11.9239	$n = 27$
	Within		1.7851	−3.2439	11.7101	T-bar = 5.8519
FORESHARE	Overall	31.9183	34.3944	0	90.24	$N = 158$
	Between		33.0266	0	90.24	$n = 27$
	Within		11.1573	−27.5067	90.3516	T-bar = 5.8519
LMVE	Overall	10.0155	3.7075	0	14.0770	$N = 158$
	Between		2.9657	0	13.4830	$n = 27$
	Within		2.239	4.1183	16.0536	T-bar = 5.8519

Table II.
Descriptive summary statistics

	TDS	FCF	TLTA	ROE	MTBV	FORESHARE	LMVE
TDS	1.0000						
	158						
FCF	−0.0446	1.00					
	(0.5775)	158					
	158						
TLTA	0.0534	0.2568	1.0000				
	(0.5051)	(0.0011)	158				
	158	158					
ROE	0.0533	0.0130	0.0543	1.00			
	(0.5064)	(0.8709)	(0.4981)	158			
	158	158	158				
MTB	0.0192	−0.0867	0.1644	0.1425	1.0000		
	(0.8109)	(0.2785)	(0.0390)	(0.0740)	158		
	158	158	158	158			
FORESHARE	−0.0989	−0.1088	−0.1762	−0.0015	−0.2277	1.0000	
	(0.2164)	(0.1736)	(0.0268)	(0.9849)	(0.0040)	158	
	158	158	158	158	158		
LMVE	0.0542	0.1102	0.0746	−0.2639	−0.3482	0.2382	1.0000
	(0.4987)	(0.1680)	(0.3516)	(0.0008)	(0.0000)	(0.0026)	158
	158	158	158	158	158	158	

Note: *p*-values are in parenthesies

Table III.
Correlation matrix

Analysis of regression results

The results of the regression show that the dependent variables are strongly related. That is, there is a statistically significant interaction between corporate disclosures and foreign share ownership among the sample firm. The results also show that at a significance level of about 10 percent, the market value of equity influences corporate disclosures among sampled firms. In the case of the FORESHARE equation above, we find that market value of equity, market-to-book value ratio, free cash flow and total liabilities to total assets ratio have statistically significant relationships with foreign share ownership.

The results as indicated above have a number of empirical implications. The relationship between foreign share ownership and corporate disclosure is found to be an inverse one. This suggests that the more foreign owners a firm has the less the company discloses and, paradoxically so, that the less a company discloses, the more foreign share owners it attracts. This might be contrary to the line of reasoning that foreign share owners being far from the home country of the target firm would invest in a company that disclosed a lot more. This shows that the evidence produced here of the relationship is contrary to the hypothesis of an "informationally" disadvantaged foreign investor being attracted to a company that is more transparent (Table IV).

Our results confirm the empirical findings of Mangena and Tauringana (2007) that foreign share ownership has a positive and statistically significant relationship with market capitalization. We do not, however, find a significant relationship between ROE and foreign share ownership. Our results also contradict their finding of a positive relationship between disclosure and foreign share ownership, even though their measure of disclosure is different from our measure of corporate disclosure.

Our results also do not confirm the out-of-sample evidence provided by Aksu and Kosedag (2006), that market-to-book value ratios and financial performance explain the variations in TDS. However, we confirm their finding that firm size, measured here as the log of market value of equity (LMVE) is significantly and positively related to TDS. This indeed suggests that larger firms are more transparent. Larger firms would have the resources to bear the cost of information production that corporate

	TDS	FORESHARE
FCF	−0.1585 (−1.15)	−7.4920 (−1.62)*
TL/TA	0.0021 (0.24)	−4.9171 (−1.70)*
ROE	0.0355 (1.13)	14.5476 (1.38)
MTB	−0.0004 (−0.15)	−1.6024 (−1.72)*
FORESHARE	−0.0007 (−3.00)***	
TDS		−72.2910 (−3.00)***
LMVE	0.0037 (1.60)*	2.3517 (3.08)***
Constant	0.470 (16.38)***	54.4197 (3.53)***
R^2	0.1553	0.1272
Prob.	0.0763	0.0000
χ^2	11.42	32.24
RMSE	0.0951	32.0304

Notes: *, **, and *** means significant at 10, 5, and 1 percent level of significance; all regressions include a constant. *t*-statistics are in parentheses

Table IV.
Panel regression results: disclosure and foreign share ownership

disclosure imposes on firms. Further, Watts and Zimmerman (1986) conclude that larger firms are more visible in an economy and thus more politically sensitive and would disclose more.

Our results also compare with Mangena and Tauringana (2007) in other respects. They found that foreign share ownership was associated with market capitalization. We corroborate this evidence given the significant and positive coefficient of LMVE (natural log of market capitalization). In terms of liquidity and Mangena and Tauringana's evidence on the association between liquidity ratios and foreign share ownership, we find that foreign share ownership is closely associated with free cash flow, our proxy for liquidity in the foreign share ownership equation. This confirms the notion that foreign investors prefer companies with healthy cash position (Mangena and Tauringana, 2007). In addition, if we take the position that market capitalization is a proxy for firm size, our results confirm the observations of Dahlquist and Robertson (2001) and Lin and Shiu (2003) that foreigners prefer large companies and companies with large cash positions.

In terms of gearing, our results show that leverage is negatively and significantly associated with foreign share ownership. The intuition is that foreign investors avoid local firms that have higher amounts of leverage or reduce their investment in such companies. Perhaps, the compounded problem of information asymmetry that leverage would bring about discourages foreign investors from investing in highly leveraged local firms. Plus, the riskiness of a local firm that is highly leveraged to a foreign investor is high.

In comparison to the study of Aksu and Kosedag (2006) our converging point is on the natural LMVE variable, which they found to be positive and significantly related to disclosure scores and we find similar evidence for the Ghanaian Stock Market. However, we are unable to confirm their findings of a significant and positive relationship between ROE and disclosure scores. We only agree that it is a positive relation although not significant as our results suggest. The time dimension of our methodology compared to the cross-sectional methodology of Aksu and Kosedag (2006) could be the reason for the differences in evidences. Our evidence in the light of Aksu and Kosedag of a significant relationship suggests that over time, firm-profitability does not influence the amount of disclosure that the company makes. There is another explanation of this observation. If a company continues to be profitable, over time it would become large and the notion of political sensitivity and visibility of the company being explanations of disclosures would then exert more influence than profitability would. Even though Aksu and Kosedag (2006) omitted free cash flow from their model, they, hypothesized a positive relationship (they report that they did not, in test results, find free cash flow significant) because firms with accumulated cash balances would mitigate the negative impact of excess cash holding on equity value by becoming more informative. Our results confirm their findings that free cash flow does not significantly contribute to disclosures – over time as well.

Furthermore, even though we do not find a significant relationship between market-to-book-value ratios and disclosures as Aksu and Kosedag (2006) found, our results suggest that the relationship is probably negative. Aksu and Kosedag conclude that the relationship is negative because low growth companies and undervalued companies would disclose more to signal their quality in order to counter negative assessments.

Conclusions

This paper examines the effect of corporate governance and disclosure on the foreign share ownership on the GSE. It also sought to establish whether there is a relationship between foreign share ownership and the corporate governance and level of disclosure practices among firms on the GSE. A panel of data covering a six-year period from 2002 to 2007 was used under the seemingly unrelated regression approach. Average foreign share ownership on the GSE is 31.92 percent. Even though some companies do not have foreign holdings, quite a number of listed firms are controlled by foreign investors with the maximum foreign holding being 90.24 percent. We document that corporate governance and level of disclosure and transparency practices are influenced by a number of variables including foreign participation. It stands to reason, therefore, that corporate governance and disclosures practices of firms on the GSE are adopted with choice of financing in mind in addition to meeting regulatory requirements.

Foreign investors, among other factors, consider corporate governance and disclosure practices of firms in making their investment decisions. Thus, consistent with existing literature, international capital mobility is affected by good governance and disclosure practices. Thus, foreign investors will avoid investing in countries with a governance regime with poor disclosure practices. We therefore recommend that even though this study considers only Ghana, it demonstrates that African countries must adopt good governance practices as a way of attracting foreign investment. Firms seeking international capital must constantly review their corporate governance and disclosure practices, since investors take these issues into consideration in their investment decisions.

References

Akerlof, G. (1970), "The market for 'Lemons': quality uncertainty and the market mechanism", *Quarterly Journal of Economics*, Vol. 84 No. 3, pp. 488-500.

Aksu, M. and Kosedag, A. (2006), "Transparency and disclosure scores and their determinants in the Istanbul Stock Exchange", *The Authors Journal Compilation*, Vol. 14 No. 4, pp. 277-96.

Baek, J.-S., Kang, J.-K. and Park, K.S. (2004), "Corporate governance and firm value: evidence from the Korean financial crisis", *Journal of Financial Economics*, Vol. 71, pp. 265-313.

Becht, M., Bolton, P. and Roell, A. (2003), "Corporate governance and control", ECGI working paper, London.

Beeks, W. and Brown, P. (2005), "Do better governed Australian firms make more informative disclosures", working paper, Lancaster University, Lancaster, available at: www.ssrn.com/abstract=650062

Bujaki, M. and McConomy, B. (2002), "Corporate governance: factors influencing disclosure by publicly traded Canadian firms", *Canadian Accounting Perspectives*, Vol. 1 No. 2, pp. 105-39.

Chan, K., Vicentiu, M.C. and Ng, K.L. (2005), "What determines the domestic bias and foreign bias? Evidence from mutual fund equity allocations worldwide", *The Journal of Finance*, Vol. 60, pp. 1495-534.

Choe, H., Kho, B.-C. and Stulz, R.M. (2005), "Do domestic investors have an edge? The trading experience of foreign investors in Korea", *The Review of Financial Studies*, Vol. 18, pp. 795-829.

Cooke, T.K. and Wallace, R.S.O (1990), "Financial disclosure regulation and its environment: a review and further analysis", *Journal of Accounting & Public Policy*, Vol. 9 No. 1, pp. 79-110.

Dahlquist, M. and Robertson, G. (2001), "Direct foreign ownership. Institutional investors, and firm characteristics", *Journal of Financial Economics*, Vol. 59, pp. 413-40.

Fan, J.P.H. and Wong, T.J. (2002), "Corporate ownership structure and the informativeness of accounting earnings in East Asia", *Journal of Accounting and Economics*, Vol. 33, pp. 401-25.

Giannetti, M. and Koskinen, Y. (2007), "Investor protection, equity returns, and financial globalization", SSRN Working Paper No. 942513, available at: www.ssrn.com

Gibson, M.S. (2003), "Is corporate governance ineffective in emerging markets?", *Journal of Financial and Quantitative Analysis*, Vol. 38, pp. 231-50.

Haniffa, R.M. and Cooke, T.E. (2002), "Culture, corporate governance and disclosure in Malaysian corporations", *Abacus*, Vol. 38 No. 2, pp. 317-49.

Jensen, M.C. and Meckling, W.H. (1976), "Theory of the firm; capital managerial behaviour, agency costs and ownership structure", *Journal of Financial Economics*, Vol. 3 No. 4, pp. 305-60.

Johnson, S., Boone, P., Breach, A. and Friedman, E. (2000), "Corporate governance in the Asian financial crisis", *Journal of Financial Economics*, Vol. 58, pp. 141-86.

Kalcheva, I. and Lins, K.V. (2007), "International evidence on cash holdings and expected managerial agency problems", *Review of Financial Studies*, Vol. 20, pp. 1087-112.

Kang, J. and Stulz, R. (1997), "Why is there a home bias? An analysis of foreign portfolio equity ownership in Japan", *Journal of Financial Economics*, Vol. 46, pp. 3-28.

Klapper, L.F. and Love, I. (2004), "Corporate governance, investor protection, and performance in emerging markets", *Journal of Corporate Finance*, Vol. 10 No. 5, pp. 703-28.

Kyereboah-Coleman, A., Adjasi, K.D.C. and Abor, J. (2006), "Corporate governance and firm performance. Evidence from Ghana listed firms", *Corporate Ownership and Control Journal*, Vol. 4 No. 2, pp. 123-32.

Lemmon, M.L. and Lins, K.V. (2003), "Ownership structure, corporate governance, and firm value: evidence from the East Asian financial crisis", *Journal of Finance*, Vol. 58 No. 4, pp. 1445-68.

Leuz, C., Lins, K.V. and Warnock, F.E. (2007), "Do foreigners invest less in poorly governed firms?", available at: www.home.business.utah.edu/finkvl/LeuzLinsWarnock%20Dec%202007.pdf

Leuz, C., Nanda, D. and Wysocki, P. (2003), "Investor protection and earnings management: an international comparison", *Journal of Financial Economics*, Vol. 69, pp. 505-27.

Lin, C.H. and Shiu, C. (2003), "Foreign ownership in the Taiwan Stock Market – an empirical analysis", *Journal of Multinational Financial Management*, Vol. 13, pp. 19-41.

McKinsey and Company (2001), "Giving new life to the corporate governance reform agenda for emerging markets", available at: www.Mckinsey.com/clientservice/organisationleadership/service/corporate governance/pdf/EmergingMarketsOpinion.pdf

Maher, M. and Anderson, T. (1999), *Corporate Governance: Effects on Firm Performance and Economic Growth*, Organization for Economic Co-operation and Development, Paris.

Mangena, M. and Tauringana, V. (2007), "Disclosure, corporate governance and foreign share ownership on the Zimbabwe Stock Exchange", *Journal of International Financial Management and Accounting*, Vol. 18 No. 2, pp. 53-85.

Merton, R.C. (1987), "A simple model of capital market equilibrium with incomplete information", *Journal of Finance*, Vol. 42, pp. 483-510.

Milgrom, P. (1981), "Rational expectations, information acquisition, and competitive bidding", *Econometrica*, Vol. 49, pp. 921-43.

Mitton, T. (2002), "A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis", *Journal of Financial Economics*, Vol. 64, pp. 215-41.

OECD (1999), *OECD Principles of Corporate Governance*, Organization for Economic Cooperation and Development, Paris.

Perera, M.H.B. (1994), "Culture and international accounting: thoughts on research issues and prospects", *Advances in International Accounting*, Vol. 7, pp. 267-85.

Rahman, A.R. (2002), "Incomplete financial contracting, disclosure, corporate governance and firm value – with evidence from a moderate market for corporate control environment", available at: www.ssrn.com/abstract 1/4; 348304

Ramaswamy, K. and Li, M. (2001), "Foreign investors, foreign directors and corporate diversification: an empirical examination of large manufacturing companies in India", *Asia Pacific Journal of Management*, Vol. 18, pp. 207-22.

Salter, S.B. (1998), "Corporate financial disclosure in emerging markets: does economic development matter?", *The International Journal of Accounting*, Vol. 33, pp. 211-34.

Tsamenyi, M., Enninful-Adu, E. and Onumah, J. (2007), "Disclosure and corporate governance in developing countries: evidence from Ghana", *Managerial Auditing Journal*, Vol. 22 No. 3, pp. 319-34.

Watts, R. and Zimmerman, J. (1986), *Positive Accounting Theory*, Prentice-Hall, Englewood Cliffs, NJ.

Young, D. and Guenther, D.A. (2003), "Financial reporting environments and international capital mobility", *Journal of Accounting Research*, Vol. 41, pp. 553-79.

Further reading

Lins, K.V. (2003), "Equity ownership and firm value in emerging markets", *Journal of Financial and Quantitative Analysis*, Vol. 38, pp. 159-84.

McKinsey (2001), "McKinsey emerging market investor opinion survey: summary of preliminary findings", available at: www.informerlive.co.uk/files/27547informerJamesDonaldseptarticle.pdf

Appendix

List of attributes used in the survey ownership:

- No. of issued and o/s ordinary shares?
- No. of issued and o/s other shares (pref, non-vot, recap)?
- Par value of each ordinary share?
- Par value of each other share (pref, non-vot, recap)?
- No. of auth but unissued and o/s ordinary shares?
- No. of auth but unissued and o/s other shares?
- Top one shareholder?
- Top three shareholders?
- Top five shareholders?
- Top ten shareholders?
- No. and identity of shareholders holding more than 3 percent?
- No. and identity of shareholders holding more than 5 percent?

- No. and identity of shareholders holding more than 10 percent?
- Identity of shareholders holding at least 50 percent?
- Float percent?
- Descriptions of share classes?
- Review of shareholders by type?
- Percentage of cross-ownership?
- Existence of Corporate Governance Charter or Code of Best Practice?
- Reproduction of its Corporate Governance Charter/Code of Best Practice?
- Mention of Articles of Association?
- Details about Articles of Association (i.e. Charter Articles of Incorp)?
- Voting rights for each voting share?
- How or who nominates directors to board?
- How shareholders convene an EGM?
- Procedure for putting Inquiry Rights to the board?
- Procedure for proposals at shareholders meetings?
- Review of last shareholders meeting (e.g. minutes)?
- Calendar of important shareholder dates?
- Any (in) formal voting agreements or blocks (relevant to family ownership)?
- Shareholding by senior managers?
- Ultimate beneficiaries in case of institutional, co. or cross shareholdings?

Financial disclosure:

- Its accounting policies?
- Accounting standards it uses for its accounts?
- Accounts according to the local accounting standards?
- Accounts according to Internationally Recognized Accounting Standard (IAS/GAAP)?
- B/S according to International Accounting Standard (IAS/GAAP)?
- I/S according to IAS (IAS/GAAP)?
- C/F according to IAS (IAS/GAAP)?
- Accounts adjusted for inflation?
- Basic earnings forecast of any kind?
- Detailed earnings forecast?
- Financial information on a quarterly basis?
- Segment analysis (broken down by business line)?
- Name of its auditing firm?
- Reproduction of the auditors' report?
- How much it pays in audit fees to the auditor?
- Any non-audit fees paid to auditor?
- Consolidated financial statements (or only the parent/holding company)?
- Methods of asset valuation?
- Information on method of fixed assets depreciation?

- List of affiliates in which it holds a minority stake?
- Reconciliation of its domestic accounting standards to IAS/US GAAP?
- Ownership structure of affiliates?
- Details of the kind of business it is in?
- Details of the products or services produced/provided?
- Output in physical terms disclosed (No. of users, etc.)?
- Characteristics of assets employed?
- Efficiency indicators (return on asset, ROE, etc.)?
- Any industry-specific ratios?
- Discussion of corporate strategy?
- Any plans for investment in the coming year(s)?
- Detailed info about investment plans in the coming year(s)?
- Output forecast of any kind?
- Overview of trends in its industry?
- Its market share for any or all of its businesses?
- List/register of related party transactions?
- List/register of group transactions?
- English Annual report on the web site?

Board and management:

- List of board members (names)?
- Details about directors (other than name/title)?
- Details about current employment/position of directors provided?
- Details about previous employment/positions provided?
- When each of the directors joined the board?
- Classification of directors as an executive or an outside director?
- Named chairman listed?
- Details about the chairman (other than name/title)?
- Details about role of the board of directors at the company?
- List of matters reserved for the board?
- List of board committees?
- Existence of an audit committee?
- Names on audit committee?
- Existence of a remuneration/compensation committee?
- Names on remuneration/compensation committee?
- Existence of a nomination committee?
- Names on nomination committee?
- Existence of other internal audit functions besides audit committee?
- Existence of a strategy/investment/finance committee?
- No. of shares in the company held by directors?
- Review of last board meeting (e.g. minutes)?

- Whether they provide director training?
- Decision making process of directors' pay?
- Specifics of directors' salaries (e.g. numbers)?
- Form of directors' salaries (e.g. cash, shares, etc.)?
- Specifics on performance-related pay for directors?
- Decision-making of managers' (not board) pay?
- Specifics of managers' (not on board) salaries (e.g. numbers)?
- Form of managers' (not on board) salaries?
- Specifics on performance-related pay for managers?
- List of senior managers (not on the board of directors)?
- Backgrounds of senior managers?
- Details of the CEOs contracted?
- No. of shares held by managers in other affiliated companies?
- Whether board members are employees of parent company (in case company is a consolidated affiliate/subsidiary)?
- Whether any group policies exist re. nature of relationship between parent and affiliates (with respect to CG of affiliates/subsidiaries)?
- Whether any members of senior management are related (family, joint business, etc.) to any major shareholder?

Corresponding author
Godfred A. Bokpin can be contacted at: gabokpin@ug.edu.gh