

Voluntary Disclosures in Financial Reporting Among Listed Companies in Ghana: Does Corporate Governance Play a Part?

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Abstract

Corporate disclosure has been said to be very important as it increases the confidence of both shareholders and potential investors. This has led users of financial information to have intensified expectation for both statutory and voluntary disclosures to meet their needs. Since voluntary disclosures are based on the discretion of management, it is therefore necessary to examine whether corporate governance play a major role in voluntary disclosures. The purpose of this paper was to investigate the relationship between corporate governance and voluntary disclosure of firms listed on the Ghana Stock Exchange. The study investigated 31 firms using dynamic panel data from 2005 to 2015. It was evident that current disclosure is influenced by past disclosure indicating a trend in voluntary disclosure overtime. The study revealed that board compensation, board gender diversity and ownership structure have a statistically significant positive relationship with the level of voluntary disclosure. However, board size tends to negatively influence voluntary disclosure while no correlation was found between non-executive directors, audit committee independence and voluntary disclosure.

Keywords: Voluntary disclosure, corporate governance, board compensation, audit committee

1. Introduction

Most top managers around the globe in the 1990s ignored the important role of corporate governance to financial reporting disclosures. This led to the series of corporate scandals and collapse of big firms in both developed and developing countries, and now investigating corporate governance and its contribution to company financial reporting has been the focus of many researchers (Wan, Shahnaz & Nurasyikin 2008). Berndt & Leibfried (2007) have expressed that in fact the sudden demise of firms like WorldCom, Enron and Parmalat and many other large companies have not only shaken investors' confidence in financial reporting but also in the financial system as a whole. Financial reporting has therefore become a global issue due to all these corporate failures. Therefore, Berndt & Leibfried (2007) again expounded that financial reporting have moved from a simple book-keeping activity exercise to a whole central function of corporate reporting directed under good corporate governance principles.

Accounting disclosure is very important to all stakeholders as it provides them the needed information to decrease uncertainty and aid them to make better financial and economic decision. The annual reports of companies contain diverse information and are therefore regarded as the most essential source of information to stakeholders (Nandi & Ghosh 2012). Information disclosure in annual reports comprise of both mandatory and voluntary disclosures. Mandatory disclosures are required by law while voluntary disclosures are excess non statutory information management could include in the annual report without any compulsion. Voluntary disclosures stem from the fact that annual reports must be useful to variety of stakeholders in making economic and investment decision.

The world economy has been marked with the notion of globalization in recent times. The use of communication technology as well as powerful information of trade flow across borders has shrunk the world into a mere village (Mohamad & Ala (2015)). Therefore, in order to compete in this globalized markets, the Securities and Exchange Commission (SEC) of Ghana in 2010 released Corporate Governance codes for all listed firms with the aim of increasing disclosures to enhance transparency, accountability and meet the world standards as well. Again, several measures and principles of codes of best practices prescribed by the central bank, Ghana Stock Exchange, Securities and Exchange Commission and other regulatory bodies have been updated to strengthen shareholders and others stakeholders' confidence in the financial reports of companies. Therefore, all listed companies are to comply with the various codes of corporate governance and make adequate disclosures in their financial reports to improve the financial reporting process.

In recent times, the sudden collapse of some large companies in Ghana have raised doubts in among investors concerning the quality of information disclosed by corporate bodies. With regard to this, it has become necessary to improve the financial information disclosure by setting up good governance structures. The studies of Wallace (1988), Umoren (2010) and Chima (2012) have revealed that accounting reports of Ghanaian companies are deficient over time. According to Chima (2012) some cases of corporate failure like the case of Merchant Bank, Procredit and others have been linked to poor financial reporting and corporate governance.

Again, the SEC (2012) has emphasized that these corporate failures were due to poor disclosure and governance practices.

Users of corporate information around the world have intensified their expectation for both published statutory and voluntary disclosure to meet their needs. Since, voluntary disclosures are based on the discretion of management, it is therefore necessary to examine the factors which influence voluntary disclosure. This study is intended to provide empirical evidence of the effect corporate governance on voluntary disclosures.

2. Literature Review

2.1 Concept and Definition of Corporate Governance

Various authoritative bodies and authors from various perspectives have differently defined the concept of corporate governance. No universal definition has been noted for the concept of corporate governance.

Traditionally, agency problems in organizations were to be relieved by the concept of corporate governance. Due to pop ups of financial frauds of Enron, WorldCom and other large corporations in the early 1990s and 2000s, much importance was placed on disclosure, transparency and accountability by corporate governance. Corporate governance does not only emerge for financial disclosure and agency problems, but rather incorporated in its codes is grievance resolution, appropriate record keeping, conformance to standards and compliance to regulatory requirements. According to Oman (2011), the laws, regulations, and acceptable business practices of private and public sectors, which governs the link between business managers or entrepreneurs (corporate insiders) and the investors or shareholders are largely comprehended in corporate governance. According to Mayer (1997) the techniques in making known the interest of investors and managers in order to see to it that firms are operated for the profitability of investors, are seen as corporate governance.

Corporate governance has again been defined by the organization for Economic Cooperation and Development (OECD) (2004) as “a set of relationships between company’s board, its shareholders and other stakeholders”. According to the OECD, corporate governance does not only define correlation between corporate players, but it again provides the structure by which the objectives of the firm are set, and the ways of acquiring those objectives and observing performance are resolute. According to Al-Najjar (2010), corporate governance is exhibited as a set of relationship between a company’s management, board of directors, its shareholders, and other partners. Two sets of governance variables that affect management undertakings were identified by him. These are firstly, internal corporate governance which distinguishes itself with the affinity among the management, board, shareholders and other partners. The second is backing and support of good corporate governance. This comprises Laws, regulations and suitable oversight by government or regulatory bodies, such as central banks or security exchanges are assimilated by these components. Abor (2007) argued that acquiescence with regulations and mechanisms for building up the nature of ownership and control of organization within an economy can be measured as corporate governance.

Corporate governance could be ascertained as mainly concerned with the rules, laws and regulations that aid in the governance of institution according to these definitions. Which encompass the means by which these rules are applied to regulate the affinity of the various stakeholders in an institution to see to a legitimate accountability to various corporate constituencies. A system or mechanism for building the nature of ownership and control of organizations within an economy can again be seen as corporate governance. In this ambient, Shleifer and Vishny (1997) elaborated that corporate governance mechanisms are economic and legal institutions that can be altered by the political process- sometimes for the better.

2.2 Corporate Governance and Voluntary Disclosures

Various researches have been conducted to establish the affiliation between corporate governance and ownership structure on voluntary disclosures. Five corporate governance variables have been unveiled through this study based on literature. Mainly, these are: non-executive directors, board size, board compensation, audit committee independence and board gender diversity. These are discussed below:

2.2.1 Non-Executive Directors and Voluntary Corporate Disclosure

Independent boards have gained more attention from corporate governance regulations and academic research in recent years (Chen et al. 2011; Johansson & Ostergren 2010). Managerial opportunism has been suggested by agency theory that it can be limited by the great capacity of independent boards (Allegrini & Greco 2013). It has been strongly indicated that a positive association between the proportion of independent directors and voluntary corporate disclosure through empirical studies. It was found after 27 studies by applying a meta- analysis that independent board make available a high level of protection to shareholders (García-Meca & Sánchez-Ballesta 2010).

Seemingly, Hussainey & Al- Najjar (2012) used a Corporate Governance Quotient (CGQ) index with 130 listed UK firms from 2003 to 2009. They found that independence of the board of directors is linked with corporate disclosure. The correlation between independence of the board of directors and corporate governance practices among Italian listed firms were also examined by Allegrini & Greco (2013). No significant relationship

between the presence of independent directors and corporate governance disclosure was found. Based on the above literature, this hypothesis is made:

Hypothesis 1: There is a positive and significant relationship between majority independent directors and voluntary disclosures.

2.2.2 Corporate Board Size and Voluntary Corporate Disclosure

Agency theory perceives that shareholders look forward to a high level of disclosure from the board of directors, since they have been chosen to stand in for their interests (Davidson et al. 1996). It has been indicated by Haniffa & Cook (2002) that the presence of experienced, knowledgeable and independent directors is in conjunction with the size of the board. Based on the complicity of the activities of the board, large firms are most likely to have a huge number of directors in a way to enhance firm monitoring and control (Coles et al. 2008). Yermack, (1996) disagreed to this, and therefore thinks that increasing the number of directors may lead to poor communication, co-ordination and interaction among directors, which he thinks may prejudice the accountability of the directors and management. Ntim et al. (2012) reviewed that board size is a major determinant of voluntary corporate disclosure. Among 169 South African firms examined by Ntim et al. (2012), they intensively reported that there is a positive and significant relationship between board size and voluntary corporate disclosure. Again, Samaha et al. (2012), by using a sample of 100 Egyptian companies, reported that Egyptian listed firms with larger boards are more likely to disclose more corporate governance information than their smaller partners. Identically, Allegrini & Greco (2013) tested 177 listed companies on the Italian stock exchange in 2007. It was revealed that larger boards tend to disclose more information about firms "strategic objectives than smaller boards. Disagreeably, Hussainey & Al-Najjar (2012) found no significant relationship between board size and corporate disclosure among 130 listed firms in the UK. Therefore, it can be hypothesized that:

Hypothesis 2: board size has a positive and significant association with voluntary disclosures.

2.2.3 Audit Committee Independence and Voluntary Disclosure

Audit committee has been confirmed in subsequent studies on the voluntary disclosure in financial reports as the most commonly studied variable. Studies such as Ho & Wong (2001), Arcay & Vazquez (2005) and Barako et al. (2006) investigated the factors of audit committee and saw that audit committee has a positive link with the degree of voluntary disclosure. One of the important factors in examining the level of disclosure is the composition of audit committees with insiders and outsiders. Since 2010 when Securities and Exchange Commission of Ghana introduced the corporate governance code, audit committees in listed companies is mandatory.

Again, the majority of the audit committee members must be non-executive directors. Corporate transparency and disclosure are expected to be enhanced by them. Forker (1992) termed the audit committee as an effective monitoring tool to improve disclosure and cut down agency costs. There is an expectation that the level of disclosure is associated with the number of independent members on the audit committee and vice versa. This leads to a supposition that a higher consonance of independent audit committee members to total members on the committee members will improve the quality of information revealed. With respect to this, the researchers put forward the hypothesis below:

Hypothesis 3: there is a significant positive relationship between audit committee independence and voluntary disclosures.

2.3.4 Board Gender Diversity and Voluntary Disclosures

One of the challenging research issues which has developed over time has been gender diversity, thus, the number of women in top management as well as on corporate boards (Singh, et al. 2001). Again, diversity could become a competitive advantage because it enhances the board's knowledge base, creativity and innovation. Gibbins et al. (1992) argued that board gender diversity may elaborate the disclosure practices of the firms in their annual reports. Empirical results reported by Huse & Solberg (2006) adhered that women directors are greatly interesting for meetings than men, therefore they are more likely to take good decisions. Adam & Ferreira (2008) recite that female directors have strong effect on board input and output. Additionally, they have better attendance records than male, and are more likely to join monitoring committees. This hypothesis is therefore put forward:

Hypothesis 4: Board gender diversity is positively correlated with the level of voluntary disclosures.

2.2.5 Board Compensation and Voluntary Disclosures

Recent research has been done on the notion of the influence of board compensation on voluntary disclosure. The factor of board compensation with the extent of voluntary disclosure in financial reports has not been attempted in most past studies. Nevertheless, Anderson & Daoud (2005) attempted to test the linkage and established that there is a significant relationship existing between board compensation and the intensity of voluntary disclosure. They again highlighted that the board of directors will enrich the observation on benefits such as bonuses and managers' compensation by awarding compensations. By so doing, as observation is enriched, it further indicates that observation on managerial opportunism behavior will increase and then more disclosure would be expected. The hypothesis below is then formulated:

Hypothesis 5: Board compensation has a positive influence on the level of voluntary disclosures.

3. Methodology

This study has been conducted to investigate the impact of corporate governance and ownership structure on voluntary disclosures. This study has adopted the explanatory type of research to help identify and explain the causal relationship between corporate governance variables, ownership structure variables and voluntary disclosure variables. The study population included all listed firms on the Ghana Stock Exchange (GSE). Currently there are forty (40) companies listed on the GSE. Thirty one (31) of these companies were used as sample for this study based on the availability of data. All data for the study were collected from secondary sources. Panel data was collected from 2005 to 2015 (11 years) on all the variables from the 31 selected firms. The table below shows the variables and how they were measured.

Variable	Measurement
Dependent Variables	
Voluntary Disclosure	Disclosure index checklist developed by Albawwat et al. (2015)
Independent Variables	
Board Size	Count of total number of members on the board
Board Compensation	The log of the overall amount of compensation given to each board member.
Non-Executive Directors	Proportion of non-executive directors to total number of directors.
Audit Committee Independence	Proportion of independent directors in the audit committee to total number on the committee.
Board Gender Diversity	The proportion of female directors represented on the board.

This study employed the Generalized Methods of Moments (GMM) as the mode of analysis. GMM is a dynamic panel approach to data analysis developed by Arellano & Bover (1995). The GMM helped to address the effect of voluntary disclosures of the past on the existing one. This method was also employed because it improves the efficiency of the estimates when dealing with data of short-sample periods, autocorrelation and explanatory variables that are endogenous and predetermined. However, in order to ensure that the GMM produces a suitable estimate, the Hansen/Sargan test of over identifying restrictions, AR (2) and the difference in Hansen test were also employed.

4. Results and Discussions

This study has investigated what determines voluntary disclosures among listed firms in Ghana using two-step system GMM. The result after running the GMM model show that the current disclosure is influenced by past disclosure indicating a trend in voluntary disclosure overtime. Secondly, the AR (2) which was employed to test the serial correlation was valid since the p-value = 0.7021 which is greater than 0.1 significance level. Similarly, the Hansen test which tested the validity of the instrument also recorded a score (0.8221) greater than 0.1 significance level. That is to say, the empirical model has been specified correctly since there is no serial correlation in the transformed residuals and validity of instruments (moment conditions) used for the study. Detailed analysis of the variables is presented below:

With respect to corporate governance variables, the result suggest that audit committee independence and non-executive directors do not have any significant relationship with voluntary disclosure. This means the independence of the audit committee does not affect items disclosed in the financial statement. In the same way majority non-executive directors on the board does not influence the amount of disclosures. Though these two variables were considered important elements in corporate governance, their effect on disclosure were found to be insignificant. This result is similar to the findings of Amer et al. (2013) who explained that this may be due to the fact that they have not reached their efficient point yet, and therefore management and policy makers need to put strategies in place to facilitate the disclosure process.

Board compensation was found to have a significant positive correlation with voluntary disclosure with coefficient of 0.00065 and $p=0.0213$. This is an indication that, when board compensation increases by one unit, voluntary disclosure will increase by 0.065%. Similarly, board gender diversity reported a significant positive relationship with voluntary disclosure by 0.2458 coefficient with $p=0$. This is an indication that female representation on the board will increase the amount of voluntary disclosure. This can be explained by the findings of Schubert (2006) stating that women are talented with multi-tasking skills, risk management skills and communicative skills as compared to males. These abilities he said, make them better in decision-making and willing to combine different responsibilities at the same time as well as managing different situations within and outside the organization. This also is in agreement with Burke (2000) that when women board presence is increased, it enriches board information, perspective, debate and decision making. However, the study of Aminah (2009) on the impact of gender diversity on voluntary disclosure among Helsinki listed firms reported no significance relationship between gender representation on board and voluntary disclosures.

On the other hand, this study uncovered a negative significant relationship between board size and voluntary disclosures with $p= 0.0341$ and coefficient of -0.19874 . Though this is contrary to the expectation of the researchers, this result could be as a result that the board has not reached their efficient point yet, and therefore management and policy makers need to put strategies in place to facilitate the disclosure process. Again, it could be that as the size of the board increase, there could be difficulties in coming into vivid conclusion about items to disclose since various views would be expressed.

Table 1: Dynamic panel-data estimation- Two-Step System GMM

Variables	Coefficients	Standard Error	P-Value
Voluntary index	0.35214***	0.00954	0
Corporate Governance			
Audit Committee Independence	0.72141	1.09851	0.3522
Board Size	-0.19874**	0.31454	0.0341
Non-executive Directors	0.87582	0.04528	0.2101
Board Compensation	0.00065**	0.00041	0.0213
Board Gender Diversity	0.24581***	0.08541	0
Number of instruments	73		
Number of observations	255		
Number of groups	31		
AR (2)-p value	0.7021		
Hansen/Sargan test -p value	0.8221		

** denote 5% level of significance

*** denotes 1% level of significance

5. Conclusion and Recommendations

Corporate disclosure has been said to be very important as it increases the confidence of both shareholders and potential investors. In literature many factors have been said to influence the level of voluntary disclosure in firms. The purpose of this paper was to investigate the relationship between corporate governance and ownership structure on voluntary disclosure of firms listed on the Ghana Stock Exchange. We investigated 31 firms using dynamic panel data from 2005 to 2015. It was evident that current disclosure is influenced by past disclosure indicating a trend in voluntary disclosure overtime. The study revealed that board compensation and board gender diversity have a statistically significant positive relationship with the level of voluntary disclosure. However, board size tends to negatively influence voluntary disclosure while no correlation was found between non-executive directors, audit committee independence and voluntary disclosure.

This study was limited to only firms listed on the Ghana Stock Exchange. It is therefore advised that caution should be taken in interpreting the results since they may not apply to certain firms in different setting like Small and Medium Enterprise (SMEs) and unlisted firms. Therefore, it is recommended that a comprehensive study could be conducted to include unlisted firms as well as SMEs to have an overall picture of the effect corporate governance have on voluntary disclosure.

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