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Research Article

OWNERSHIP STRUCTURE AND CORPORATE VOLUNTARY DISCLOSURES IN ANNUAL REPORTS: EVIDENCE FROM GHANA STOCK EXCHANGE

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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. Many factors have been said to influence the level of voluntary disclosure in firms. Various studies have examined the relationship between ownership structure and corporate voluntary disclosures in advance markets and countries like the US, UK, New Zealand and some Asian markets with mix results, few studies have been conducted on emerging markets like Ghana Stock Exchange. Therefore, the purpose of this paper was to investigate the relationship between ownership structure and voluntary disclosure of firms listed on the Ghana Stock Exchange. The study investigated 31 firms using dynamic panel data from 2005 to 2015. The study revealed that government ownership, and foreign ownership have a significant positive correlation with voluntary disclosure. Contrary to this, institutional ownership revealed a significant negative association with voluntary disclosure while no correlation existed between number of shareholders and voluntary disclosure. it is recommended that a comprehensive study be conducted to include unlisted firms as well as SMEs to have an overall picture of the effect ownership structure on voluntary disclosure.

INTRODUCTION

Voluntary disclosures in corporate annual reports has gained considerable attention by both business acumen and academicians due to emerging issues concerning the protection of minority shareholders. Corporate disclosures play an effective role in corporate governances by providing a transparent information to shareholders and other stakeholders. Therefore, Makhija and Patton (2004) posited that the degree and quality of corporate disclosures in annual reports is an outcome of conflicting interest among management, majority shareholders and minority shareholders. They argued that large blockholders may manipulate the extent of disclosure to satisfy their private interest due to their controlling power. But, management is responsible for preparing annual reports to meet the needs of all stakeholders. As a result, all relevant information should be disclosed in the annual reports for better economic decision making by shareholders. These disclosures should not only be statutory requirement, but should include voluntary information. Voluntary disclosures protect the interest of minority shareholders and increases transparency of the company's information to all interest group.

Voluntary disclosures as defined by Meek, *et al* (1995) are "disclosures in excess of requirements in annual reports and other media as deemed relevant by the company management for an effective decision-making by the users of the financial." But since ownership is normally separated from control, management lack the incentives to provide additional or voluntary disclosures. Chau and Gray (2010) have explained that there is also convergence between the controlling shareholders and the outside investors when owner's holding increases. In this case, when most investment decision are likely to be made to favour insiders' wealth at the expense of outsiders, then the outsiders will require managers to increase the extent of disclosures.

Various studies have examined the relationship between ownership structure and corporate voluntary disclosures in advance markets and countries like the US, UK, New Zealand and some Asian markets with mix results (Samaha and Dahawy, 2011; Chau and Gray, 2002; Turpin and Dezoort, 1998; and Hossain *et al*., 1994). Some of these studies have found a positive relationship between wide share ownership and voluntary disclosures by corporations. While others have reported otherwise. Samaha and Dahawy (2011) have noted

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that few studies have examined disclosure practices in developing and emerging markets such as Ghana Stock Exchange.

This current paper examines the extent of corporate voluntary disclosure with respect to ownership structure of listed firms on the Ghana Stock Exchange. Currently, there are forty listed companies on the Ghana Stock Exchange of which most are inactive. Most of these listed firms have high shareholder concentration that could have a considerable influence on the level of voluntary corporate disclosures made by the firms. This study contributes to argument on ownership structure and voluntary disclosure in developing countries, perhaps the first study in Ghana, by providing insight to both majority and minority shareholders and other stakeholders, the factors that influence voluntary disclosures among the listed firms.

LITERATURE REVIEW

Corporate Voluntary Disclosures

Voluntary disclosures with regard to this study are the information that listed Ghanaian companies are not obliged by laws (that is the Company's Code, Ghana Stock Exchange code on governance, etc.) to disclose but are disclosed rather based on the discretion of management to enhance transparency. Previous studies on voluntary disclosure developed disclosure indices to measure the extent of disclosure by firms. Most researchers have used their own self-constructed checklist on voluntary disclosures, whiles some have used that developed by others. In this study, the Ghanaian Stock Exchange is not advanced and therefore allow the developments of self-constructed index on voluntary disclosures. The checklist constructed for this study was based on observations made in on the standard financial reporting practices in Ghana. Again, checklist of previous studies in similar studies was taken into consideration. Also, the items in the checklist was compared to relevant disclosure in the IFRS, the Company's code and the Ghana Stock Exchange code on governance. Finally, a list of 72 voluntary disclosure items was contained on the checklist.

Ownership Structure and Voluntary Disclosures

The decision to add four variables in the GMM mode, was led by a review of literature on the relationship between ownership structure and voluntary disclosure. These four variables in the GMM mode are institutional ownership, foreign ownership, government ownership and number of shareholders.

Government Ownership and Voluntary Disclosures

Eng and Mak (2003) ascertained that due to conflicting objectives between the pure profit goals of a commercial enterprise, and the goals in relationship with the interests of the nation agency costs are higher in government-linked companies. Due to the fact that companies with high percentage government ownership wants to be a good example to companies that are fully private-owned that they are more determined on concentrating on the environment and energy related issues, and providing good pension plans and training programs (Naser *et al*., 2006). Again it is expected that more detailed information, which demonstrates the companies are fulfilling their social responsibilities would be opened up by government owned companies.

Again exhibiting transparency and corporate- governance reform is highly possible with government owned companies, by disclosing more to prove that they are committed to the state (Cheng and Courtenay, 2006). Notwithstanding, government ownership is emphatically responsible for issues and moral risks regarding agency, by means of decreasing these problems is through information disclosure (Eng and Mak, 2003). Huafang and Jianguo (2007) looked forward to a positive relationship between government ownership and information disclosures. Eng and Mak (2003) found a positive relationship between government ownership and voluntary disclosure.

Foreign Ownership and Voluntary Disclosures

According to Haniffa and Cooke (2002), due to the fact that foreign owners' management needs monitoring, it is reported that they need more disclosure. Again as far as companies are involved, those that produces more disclosures appears to be registered on numerous stock exchanges (Ferguson, *et al*, 2002). By so doing, severa lliteratures have mentioned the association between foreign ownership and voluntary disclosure. There was indeed a significant positive relationship between foreign ownership and voluntary disclosure, amidst the listed companies in Malaysia, (Haniffa and Cooke, 2002). The foreign share listings/ownership has been found to have positive effects on the extent of disclosure amidst the Chinese listed companies (Xiao *et al*., 2004). Nevertheless, a study by Lam and Shi (2008) in China found that the ethical attitudes of the employees are not impacted by them being employed by foreign-investment firms.

A proposed elaboration has been made on this marvel that, the ethical benchmarks levy by the multinational companies operating in countries that are less developed may be identical with the standards implemented in their headquarters located in the advanced countries. Foreign firms operating in Malaysia, have been noted to disclose few information than their local counterparts, as their CSR awareness may not be on an increase (Janggu, *et al*, 2007).

Institutional Ownership and Voluntary Disclosures

The percentage of ordinary shares owned by prominent shareholders (5% or more) are represented by institutional ownership. It is measured that huge institutional ownership means that the shares are controlled by a few group of people, though ownership is concentrated. To prevent managers from arrogating resources for private benefit, concentrated ownership structure serves as an effective monitoring technique (Noe, 2002). Huge institutional holding would be expected to encourage managers to make available more disclosures, in order to increase share prices and enrich the firm's value, based on the efficient-monitoring hypothesis of ownership concentration. In regard to this, institutional ownership has been identified to be significantly linked to the extent of voluntary disclosure (Haniffaand Cooke, 2002; Makhija and Patton, 2004; Huafang and Jianguo, 2007). The relationship that exist between institutional ownership and the extent of voluntary disclosure has been documented in available literature on this field. Notwithstanding, Eng and Mak (2003) discovered no significant linkage between the two variables, in their studies. Meanwhile, institutional ownership appears to have negative relationship with voluntary disclosure in the studies by Ismail and El-Shaib (2012) and Adelopo (2011).

Number of Shareholders and Voluntary Disclosures

The extent of accounting disclosure in annual financial reports has been found positively related with the number of shareholders (Gharaebeh and Naber, 1987; Al Muhannadi, 2007). Singhvi and Desai (1971) saw that there is a positive relationship existing between the number of stockholders and disclosure quality, and this could be explained by a number of factors. First and foremost, it is likely that companies with more stockholders could attract the public better. For better information disclosure, these companies would engage more on familiarizing themselves with stockholders and the analyst's demands. By having more stockholders, the prominent companies, may disclose more information and this will then decrease the authorities' excessive demands Again, these companies also expose information to increase their securities' marketability. The agency theory (Garcia and Sanchez, 2010) rationalizes that the rapid spread of ownership causes asymmetry of information to happen between companies and their shareholders. By so doing, as it has been explained by the theory (agency theory) companies with more shareholders and increasingly expanded ownership, would acquire increase in agency cost and also monitoring cost (Wang *et al*., 2008). More information are willingly published in the annual reports as well as websites by companies in order to decrease these costs, likewise gaining more demand for information disclosure means having more shareholders.

Conceptual Framework and Hypothesis

Based on the literature review above, the following hypothesis and conceptual framework is developed:

Hypotheses

Hypothesis 1: A positive relationship exist between government ownership and the level of voluntary disclosures.

Hypothesis 2: There exist a significant positive relationship between foreign ownership and voluntary disclosures.

Hypothesis 3: Institutional ownership negatively affects the level of voluntary disclosures.

Hypothesis 4: there is a significant positive relationship between number of shareholders and the level of voluntary disclosures.

Conceptual Framework

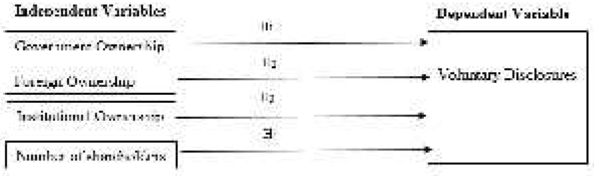

Fig. 1 conceptual framework on how ownership structure relates with voluntary disclosure

MATERIALS AND METHODS

This study has been conducted to investigate the impact of ownership structure on voluntary disclosures. This study adopted the explanatory type of research to help identify and explain the causal relationship between 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 samples 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.

Table 1 variables and how they were measured

Variable	Measurement
Dependent Variables	
Voluntary Disclosure	Disclosure index checklist developed by the researchers. A value of 1 is assigned when a given item is disclosed and 0 when it's not disclosed for each given year.
Independent Variables	
Government Ownership	The percentage of shares owned by the government to the overall amount of issued share.
Foreign Ownership	The percentage of shares owned by foreign investors with respect to the total number of shares issued.
Institutional Ownership	The percentage of shares owned by institutions with respect to the total number of shares issued.
Number of Shareholders	The total number of shares issued by each firm.

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 and 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-samples 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.

RESULTS AND DISCUSSION

The results 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 =0.6412 which is greater than 0.1 significance level. Similarly, the Hansen test which tested the validity of the instrument also recorded a score (0.7101) 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:

The study found that foreign ownership and government ownership are positively correlated with voluntary disclosures. Thus, increase in government and foreign ownership among the listed firms increases the level of voluntary disclosures by 7.89% and 0.006% respectively. Similar study by Mohamad and Ala (2015) reported a significant relationship between government ownership and voluntary disclosure among firms in Jordan. Again, Haniffa and Cooke (2002) and Xiao, *et al* (2004) have equally established a significant positive relationship between foreign ownership and voluntary disclosure. Haniffa and Cooke (2002) expounded that foreign investors and owners appear to need more disclosure, because the foreign owner management needs monitoring.

This study on the contrary found no statistical significant relationship between number of shareholders and voluntary disclosure. This is an indication that the number of shareholders does not influence the level of voluntary disclosure by firms on the Ghana Stock Exchange. With respect to Institutional ownership and voluntary disclosure, the study revealed a significant negative relationship with p=0.003 and coefficient =-0.02462. That is to say an increase in institutional ownership reduces voluntary disclosure by 2.46%. This is consistent with the studies of Marston and Polei (2004), Ismail and El-Shaib (2012), Adelopo (2011) who discovered a negative relationship between block holder ownership and voluntary disclosure.

Table 2 Dynamic panel-data estimation- Two-Step System GMM

Variables	Coefficients	Standard Error	P-Value
Voluntary index	0.35214***	0.00954	0
Government Ownership	0.078951**	0.03695	0.0241
Foreign Ownership	0.00006***	0.0122	0.4123
Institutional Ownership	-0.02462***	0.00042	0.003
Number of Shareholders	0.00854	0.00025	0.2454
Economic Freedom	1.74125	0.21014	0.001
Number of instruments	72		
Number of observations	201		
Number of groups	31		
AR(2)-p value	0.6412		
Hansen/Sargan test -p value	0.7101		

** denote 5% level of significance
*** denotes 1% level of significance

CONCLUSION AND RECOMMENDATION

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 ownership structure and voluntary disclosure of firms listed on the Ghana Stock Exchange. We investigated 31 firms using dynamic panel data from 2005 to 2015. The study revealed that government ownership, and foreign ownership has a significant positive correlation with voluntary disclosure. Contrary to this, institutional ownership revealed a significant negative association with voluntary disclosure while no correlation existed between number of shareholders and voluntary disclosure.

This study is 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 firm. 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 ownership structure has on voluntary disclosure.

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