

**The Relative Value Relevance of Shareholder versus Stakeholder Corporate
Governance Disclosure Policy Reforms in South Africa**

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Abstract

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Research Question/Issue: South Africa (SA) has pursued distinctive corporate governance (CG) disclosure policy reforms in the form of the King Reports, which require firms to disclose a set of recommended good CG practices on both shareholders and stakeholders. This paper investigates the effect of the new shareholder and stakeholder CG disclosure rules on firm value, as well as the relative value relevance of disclosing good CG practices on shareholders versus stakeholders.

Research Findings/Insights: Using a sample of 169 SA listed firms from 2002 to 2007, we find that disclosing good CG practices on both shareholders and stakeholders impacts positively on firm value, with the latter evidence providing new explicit support for the resource dependence theory. However, we provide additional new evidence, which suggests that disclosing shareholder CG practices contributes significantly more to firm value than stakeholder ones. Our results are robust to controlling for different types of endogeneities.

Theoretical/Academic Implications: The paper generally contributes to the literature on the association between disclosure of CG practices and firm value by specifically modelling the relationship within a unique institutional and CG environment. Specifically, we make two new contributions to the extant literature. First, we show how stakeholder CG disclosure practices impact on firm value. Second, we provide evidence on the relative value relevance of disclosing shareholder and stakeholder CG practices.

Practical/Policy Implications: Our results have important policy and regulatory implications, especially for authorities in other developing countries facing socio-economic problems that are currently contemplating or pursuing CG disclosure policy reforms. Since our evidence indicates that additional value can be created for firms that provide more transparent information on stakeholder CG practices, it provides authorities in other emerging countries currently planning or pursuing CG reforms with a strong motivation to formally extend CG disclosure rules to cover both shareholder and stakeholder provisions.

Keywords: Corporate Governance, Disclosure Policy Reforms, Shareholders and Stakeholders, Firm Value, South Africa

INTRODUCTION

This study examines the central question of whether differences in the levels of disclosure of recommended good corporate governance (CG) practices can explain observable variations in the market value of firms. Specifically, we utilise a natural and distinct corporate setting in South Africa (SA), where recent CG disclosure policy reforms uniquely require firms to provide more transparent information on a set of recommended good CG practices for both shareholders and stakeholders to investigate the relative value relevance of such disclosures. Using data on SA listed firms and 50 CG provisions from the 2002 King Report, we provide new evidence, which generally indicates that disclosing CG practices relating to both shareholders and stakeholders is associated with improved market value. However, we provide extra new evidence, which suggests that the positive association between disclosing CG practices and firm value is stronger for shareholder than stakeholder CG provisions. Our study thereby provides new insights on the moderating and intermediate effects of disclosing shareholder CG practices on the link between stakeholder CG disclosure practices and firm value.

The overall aim of CG mechanisms is to reduce agency problems by aligning the interests of managers and owners and thereby improving firm value (Jensen & Meckling, 1976). A major way of resolving such agency conflicts is for firms to engage in increased disclosure of CG practices.¹ Specifically, past studies suggest a number of channels through which increased disclosure of CG practices can be translated into improved firm value (Hermalin & Weisbach, 2011). First, disclosing CG practices can facilitate efficient allocation of scarce resources by helping managers and investors to identify profitable investment opportunities (Bushman & Smith, 2001). Second, providing more transparent information on CG practices for shareholders can decrease the costs of external capital by reducing managerial monitoring and bonding costs (Beiner et al. 2006) and consequently, the overall corporate risk premia (Mallin, 2002). Third,

disclosing CG practices can increase firm value by reducing information asymmetry between managers and investors (Sheu, Chung & Liu, 2010).

The results of recent studies generally support the above proposition (Henry, 2008; Renders et al., 2010). For example, La Porta et al. (2002) find evidence of higher valuation of firms in countries that provide more transparent information on the rights of minority shareholders than those that do not. Gompers, Ishii, and Metrick (2003) and Durnev and Kim (2005) report a positive link between disclosing CG practices and firm value.

A separate crucial policy question that has received little empirical attention despite generating extensive debate² is whether providing more transparent information on shareholder or stakeholder CG practices contributes more to firm value. Stakeholder theorists (Freeman & Reed, 1983; Slinger, 1999) suggest that disclosing stakeholder CG practices can, not only reduce political costs (Cheung, Rau, & Strouraitis, 2010) by legitimising corporate operations (Branco & Rodrigues, 2008), but also, gain greater access to resources (Jensen, 2002) that can improve firm value. By contrast, disclosing CG practices relating to stakeholders imposes extra costs on firms (Friedman, 1970), which can impact negatively on firm value.

In this paper, we contribute to extant CG disclosure literature by responding to recent calls (Filatotchev & Boyd, 2009; van Ees et al., 2009) for studies that examine both shareholder and stakeholder CG disclosure practices, as well as draw on multiple theoretical perspectives, including agency, legitimacy and resource dependence theories by providing empirical evidence on the central question of whether providing more transparent information on shareholder or stakeholder CG practices contributes more to firm value in SA. Similar to other Anglo-American countries, SA has pursued CG disclosure policy reforms following the collapse of Apartheid in 1994 in the form of the 1994 and 2002 King Reports (Aguilera & Cuervo-Cazurra, 2009). Distinct from other Anglo-American countries, the reforms require firms to provide more

transparent information on CG practices for both shareholders and stakeholders (Ntim et al., 2011). This uniquely permits us to investigate and compare the impact of disclosing good CG practices on both shareholders and stakeholders, which is rarely studied. Hence, this study allows us to shed some light on the important question of whether providing more transparent information on shareholder or stakeholder CG practices contributes more to firm value, and thereby making a number of new contributions to the extant literature.

First, from an agency theoretical perspective, providing more transparent information on CG mechanisms can reduce agency conflicts between corporate manager and shareholders (Jensen & Meckling, 1976; Mallin, 2002). However, since there are significant costs implications for corporate disclosures (Core, 2001; Dye, 2001), firms that commit to greater levels of transparency on shareholder CG practices distinguish themselves by sending a credible signal about their intention of aligning their interests with those of existing and future investors (Sheu et al., 2010). The positive perception of their CG mechanisms from investors can be expected to impact favourably on firm value in the form of increased share prices (La Porta et al., 2002). Consistent with agency theory, our results contribute to the literature by indicating a positive link between high levels of transparency on shareholder CG practices and firm value.

Second, we argue that in developing countries facing deep socio-economic problems, similar to SA, companies that provide more transparent information relating to stakeholder CG practices can gain financially through increased market valuation. Legitimacy theory indicates that greater transparency through increased disclosure of CG practices that seek to protect the interests of stakeholders is a central means by which companies, particularly large ones, can legitimise their operations (Branco & Rodrigues, 2008). On the other hand, the resource dependence theory suggests that disclosing stakeholder CG practices can provide access to critical resources, such as raw materials and government contracts (Jensen, 2002; Nicholson &

Kiel, 2003), leading to improved firm value. Consistent with legitimacy and resource dependence theories, we provide new evidence that suggests a positive association between disclosing stakeholder CG practices and firm value.

Third, and most importantly, we provide new insights on the moderating and intermediate effects of disclosing shareholder CG practices on the association between stakeholder CG disclosures and firm value. It can be argued that the emphasis on shareholder primacy in the Anglo-Saxon corporate world on the theory of the firm suggests that disclosing CG practices on shareholders may be more important than disclosing stakeholder CG practices. Therefore, we argue that even though being more transparent on CG practices relating to both shareholders and stakeholders contributes to firm value, it is expected that firms with good disclosure of CG practices for stakeholders are more likely to also disclose more information on shareholder CG mechanisms. Hence, disclosure of CG practices for stakeholders leads to higher market value primarily through the provision of more transparent information on CG practices for shareholders, and thus the value creation is mainly through the disclosure of shareholder rather than stakeholder CG practices.

Our proposition is based on prior evidence and investor surveys, which suggest that investors value disclosures on shareholder CG practices higher than stakeholder ones (Jamali et al., 2008; Starks, 2009). Our results contribute to the literature by providing new evidence, which shows that: disclosing shareholder CG practices contributes significantly more to firm value than stakeholder ones; and firms that engage in comprehensive disclosure of shareholder CG practices are also more likely to disclose more transparent information on stakeholder CG practices. Thus, our evidence, respectively, provides crucial insights on both the intermediate and moderating effects of disclosing shareholder CG practices on the link between disclosing stakeholder CG practices and firm value.

Finally, our results provide empirical support for theoretical suggestions that corporate board structures are the most important CG mechanisms (Jensen, 1993; Yermack, 1996), as high levels of disclosure of CG provisions relating to corporate boards and directors have a stronger association with firm value than disclosures related to other CG provisions. Our findings are generally robust across a raft of econometric models that control for different types of endogeneity problems and firm value proxies.

The remainder of the paper is organised as follows. The next section discusses the SA CG disclosure policy reforms. The following sections present the hypotheses development, discuss research design, present the empirical analyses, and conduct robustness analyses, with the concluding remarks containing a summary and a brief discussion of policy implications.

CORPORATE GOVERNANCE DISCLOSURE POLICY REFORMS IN SA

The importance of good CG, accounting transparency and disclosure practices in reducing agency problems has been generally recognised (Mallin, 2002). As a result, CG disclosure policy reforms have been pursued in a considerable number of countries, although they have mainly focussed narrowly on shareholder CG practices (Aguilera & Cuervo-Cazurra, 2009). However, due to the need to address pressing stakeholder issues, such as mass unemployment and the legacy of inequality following Apartheid, CG reforms pursued in SA have distinctively focused on both shareholder and stakeholder CG practices (Ntim et al., 2011). This creates a unique governance environment whereby the impact of disclosing both shareholder and stakeholder CG practices on firm value can be explicitly examined. Therefore, our SA investigation is particularly relevant to stock markets in developing countries that are currently contemplating or pursuing CG disclosure policy reforms where there is a paramount need to protect stakeholder interests due to profound social and economic problems.

Attempts at reforming CG and disclosure practices in SA began in 1994 in the form of the 1994 King Report (King I) (Ntim et al., 2011). Of special note, the release of King I coincided with the collapse of Apartheid, the historic release of Nelson Mandela from prison and the subsequent assumption to power by the African National Congress (ANC) (King Report, 2002). Nonetheless, CG disclosure reforms recommended by King I were generally similar to those of other Anglo-American countries, especially those proposed by the influential 1992 UK Cadbury Report (King Report, 2002; Ntim, 2009). Table 1 summarises and compares these proposals and are also expanded in Sections 1 to 4 of the Appendix. However, and unlike the Cadbury Report, King I implicitly recognised the need for firms to provide more transparent information on CG practices for both shareholders and stakeholders by adopting the ‘integrated’ CG disclosure approach. The ‘integrated’ CG disclosure approach encourages firms to go beyond the traditional financial aspects of CG disclosure and take into account a number of stakeholder interests as well (see Table 1; Ntim et al., 2011).

Insert Table 1 about here

SA distinguished its CG disclosure model further from other Anglo-American ones by revising and replacing King I in 2002 with a second King Report (King II), which explicitly promoted the ‘inclusive’ CG approach (Ntim et al., 2011). The ‘inclusive’ CG disclosure approach seeks to maintain and strengthen all the Anglo-American (shareholding) features, such as unitary boards, voluntary compliance, and majority outside directors (see Rows 2 to 5 of Table 1 and Sections 1 to 4 of the Appendix), but it distinctively requires firms to explicitly provide more transparent information on a number of affirmative action and stakeholder (stakeholding) laws passed by the ruling ANC on black economic empowerment, employment equity, environment, HIV/Aids and health and safety (see Row 6 of Table 1 and Section 5 of the Appendix). The explicit need to protect stakeholder interests through greater transparency on

stakeholder CG practices in SA arises out of many years of formal discrimination against the non-white population during the Apartheid regime, resulting in deep-seated socio-economic problems, such as acute poverty and high crime rate, despite relative economic development (King Report, 2002; Ntim, 2009). The requirement for companies to protect stakeholder interests, such as those of employees and local communities by disclosing their CG practices on stakeholders is, therefore, seen as a major way of addressing historical socio-economic inequalities between white and non-white South Africans (King Report, 2002).

Further to its unique focus on firms to provide more transparent information on stakeholder CG practices, a clear majority of the recommended good CG practices contained in King II seek to protect shareholder interests. These good shareholder CG rules cover four broad areas: corporate boards and directors; risk management, internal audit and control; accounting and auditing; and compliance and enforcement (see Rows 2 to 5 of Table 1 and Sections 1 to 4 of the Appendix). Boards and directors CG disclosure provisions primarily seek to improve the independence and monitoring power of corporate boards by encouraging firms to provide more transparent information on board practices, including having majority independent non-executive directors and splitting the roles of company chairman and CEO, amongst others. Risk management, internal audit and control CG disclosure rules call for greater transparency regarding corporate risks and their management techniques, and the existence of effective internal audit and control processes and systems aimed at minimising, as well as detecting managerial fraud. CG provisions relating to accounting and auditing call for high levels of transparency on accounting and auditing practices, such as adhering to international accounting standards and having independent audit committees. Enforcement and compliance CG rules seek greater corporate transparency through disclosures on the measures and steps that have been taken to achieve voluntary compliance with King II, including encouraging shareholder activism.

Additional to the pursuance of distinctive CG disclosure policy reforms is that, unlike the UK and US, but similar to some Asian and European countries, ownership of firms is highly concentrated (Ntim et al., 2011). Distinct from most Asian and European countries, however, the concentration has mainly emerged through the creation of tall pyramids and complicated cross shareholdings by a few extremely large corporations (King Report, 2002; Ntim et al., 2011). This is generally in contrast to most Asian countries where individual and family block ownerships are rather prevalent (Cheung et al., 2007). The feature of ownership concentration together with weak shareholder activism and poor enforcement of corporate regulations (King Report, 2002; Ntim, 2009), have greatly weakened the market for corporate and managerial control in SA (Henry, 2008); giving rise to a number of agency problems, including managerial entrenchment and expropriation of minority wealth (La Porta et al., 2002).

In summary, the recent pursuance of distinctive CG disclosure policy reforms, as well as the unique corporate context may arguably impact differently on firm value and as such, the association between the level of transparency on CG practices and firm value can be expected to be different from what has been reported in other Anglo-American countries.

HYPOTHESES DEVELOPMENT

Comprehensive Disclosure of Shareholder CG Practices and Firm Value

A key question that has attracted considerable research interest is whether providing more transparent information in on shareholder CG practices can influence a firm's market value. From an agency theory perspective, disclosing CG practices can influence corporate performance for shareholders in two main ways: internal and external. Internally, increased information transparency on CG practices for shareholders can contribute to firm value by reducing the divergence of interests between managers and owners (Jensen & Meckling, 1976; Chen et al.,

2010). This can take the form of minimising managerial expropriation through excessive compensation and perquisites consumption (Jensen & Meckling, 1976; Renders et al., 2010), preventing wasteful investments over paying dividends (Jensen, 1986; Beiner et al., 2006) and reducing managerial shirking (Jensen & Meckling, 1976).

Externally, providing more transparent information on CG practices can contribute to firm value for shareholders by facilitating comprehensive, credible and timely corporate disclosures (Bushman & Smith, 2001; Mallin, 2002). First, disclosing a firm's contractual and CG structures can reduce information asymmetry and investor uncertainties (Healy & Palepu, 2001) and thereby reduce the cost of capital by lowering associated risk premia (Botosan, 1997). Second, and given that corporate disclosure involves substantial financial and non-financial costs, including litigation and greater public scrutiny (Core, 2001; Dye, 2001), firms that disclose more transparent information on CG practices distinguish themselves by sending a credible signal to investors of their governance qualities (Certo et al., 2001; Hermalin & Weisbach, 2011).

Third, disclosing CG practices constitutes increased managerial commitment towards greater transparency, integrity and financial disclosure by providing a window of opportunity for outsiders, especially investors, to continuously monitor the quality of governance structures, and thereby satisfying the need to directly observe governance and accountability mechanisms of the firm (Mallin, 2002; Sheu et al., 2010). Indeed, past evidence (Beekes & Brown, 2006) indicates that firms that depict greater commitment to transparency make more informative disclosures. Consequently, the main objective of CG codes that have been issued in emerging markets (Aguilera & Cuervo-Cazurra, 2009), such as SA, is that compliance will gain investor confidence by improving transparency that can facilitate better flow of foreign equity investments, leading to improved firm value (CLSA, 2000; Mallin, 2002).

Prior evidence broadly provides support for the above theoretical propositions. A considerable number of empirical studies suggest a positive association between disclosing shareholder CG practices and firm value, although these studies are limited by being disproportionately concentrated in developed countries in Western Europe and US, which depict relatively similar corporate contexts (Baur et al., 2004; Chen et al., 2010). For example, previous US (Gompers et al., 2003; Cremers and Nair, 2005) and European (Drobetz et al., 2004; Beiner et al., 2006) studies report a positive link between disclosing shareholder CG practices and firm value, although others have highlighted the need for robust estimates by addressing potential endogeneity problems (Core et al., 2006; Bhagat & Bolton, 2008).

Limited, but more consistent evidence has been reported for a number of emerging markets (Black et al., 2006; Henry, 2008). Black and Khanna (2007), Garay and González (2008) and Leung & Hortwitz (2010) have investigated the association between shareholder CG disclosure indices and firm value, using samples of Indian, Venezuelan and Hong Kong listed firms, respectively. Consistent with past cross-country studies in emerging markets, including SA, based mainly on the CLSA (2000) analysts' CG ratings (Klapper & Love, 2004; Durnev & Kim, 2005; Morey et al., 2009), the results of these studies indicate a higher market valuation for firms that engage in increased disclosure of shareholder CG practices than those that do not. Further, opinion-based surveys conducted by CLSA (2000), McKinsey (2002) and Deutsche Bank (2002) generally indicate that institutional investors, including SA ones, are willing to pay more for shares in firms that display greater levels of transparency on their CG practices than their less transparent counterparts even if they have similar financial performance records.

A greater part of the CG disclosure rules contained in King II are aimed at protecting shareholder interests. Given the comply or explain compliance regime, it is argued that high levels of compliance with King II constitutes a major way by which SA firms can credibly signal

their governance qualities to investors and as such, those that commit to greater transparency and accountability in the form of increased compliance with King II can be expected to be associated with increased market valuation. Consequently, we predict a positive association between high levels of information transparency through increased disclosure of the recommended shareholder CG provisions (as defined in Sections 1 to 4 of the Appendix) and firm value. Therefore, the first hypothesis tested in this study is that:

H₁: There is a positive association between high levels of information transparency in the form of increased disclosure of shareholder CG practices and firm value.

Comprehensive Disclosure of Stakeholder CG Practices and Firm Value

Despite generating substantial debate (Weimer & Pape, 1999; Slinger, 1999), the question of whether disclosing stakeholder CG practices contributes to firm value has received little empirical attention (Healy & Palepu, 2001: 406; Starks, 2009: 461). In this paper, we contribute to the literature by investigating the link between high levels of information transparency relating to CG practices for stakeholders and firm value.

From a resource dependence theory perspective, providing more transparent information on CG practices for stakeholders can contribute to firm value in a number of ways (Jensen, 2002; Branco & Rodrigues, 2008). First, Jensen (2002) suggests that a firm consists of social groups in which each group can be seen as supplying the firm with important resources and in return, expects its interests to be addressed. For example, local communities supply the firm with location and local infrastructure. In exchange, they expect the firm to improve their quality of life, whilst employees provide the firm with skills and in return, they expect to receive a commensurate income, and this is arguably true for every reasonably conceivable constituency of the firm, such as shareholders, creditors, customers and the government. For instance, providing

more transparent information on CG practices that seek to address the needs of employees can contribute to firm value by minimising internal labour frictions, such as strikes (Mallin, 2002), as well as improving corporate reputation (Branco & Rodrigues, 2008).

Second, and from a legitimacy theory perspective, through taxation, regulations and nationalisation, the political system has the power to redistribute wealth between various societal groups (Cheung et al., 2010) and as such, providing more transparent information on CG practices that seek to protect stakeholder interests, especially by larger corporations, can influence performance by reducing such political costs (Fishman, 2001; Faccio, 2006). Similarly, disclosing stakeholder CG practices can contribute to firm value by facilitating conformance to social norms and expectations in order to legitimise corporate operations (Branco & Rodrigues, 2008), which can further facilitate greater access to critical resources, such as government contracts, finance, and tax concessions (Nicholson & Kiel, 2003). Third, and given that providing more transparent information on stakeholder CG practices can involve significant financial costs (Friedman, 1970), firms that engage in greater stakeholder protection and disclosure send a credible signal to investors of their increased commitment to good governance and accountability (Certo et al., 2001), which can impact positively on firm value.

Limited anecdotes and evidence from the corporate social responsibility (CSR) literature generally support the above propositions. Opinion-based survey conducted by Mercer Consulting in 2006, for example, indicates that institutional investors consider CSR issues to be important (Starks, 2009: 465). Also, evidence from the CSR literature suggests that increased CSR disclosures impacts positively on firm value (Branco & Rodrigues, 2008).

As previously explained, due to many years of official discrimination, disclosing stakeholder CG practices is particularly important within the SA context, with affirmative action and stakeholder issues receiving greater political attention (King Report, 2002). Crucially, and of

particular relevance to basic materials and technology firms, securing and renewing government and mining contracts are normally linked to greater commitment to be more transparent with CG practices that seek to protect stakeholder interests (Ntim et al., 2011). This means that high levels of information transparency on stakeholder CG practices (as defined in Section 5 of the Appendix) may be a major way by which SA firms can gain access to valuable resources that can facilitate growth and improve firm value. Therefore, the second hypothesis tested in this study is that:

H₂: There is a positive association between high levels of information transparency in the form of increased disclosure of stakeholder CG practices and firm value.

The Relative Value Relevance of Disclosing Shareholder and Stakeholder CG Practices

Another important question that has rarely been investigated in the CG disclosure literature is whether providing more transparent information relating to CG practices for shareholders or stakeholders contributes more to firm value. Our *a priori* expectation is that disclosing shareholder CG practices contributes more to firm value than their stakeholder counterparts to the extent that stakeholder CG disclosures depend on shareholder CG disclosure practices (Jamali et al., 2008). That is, although firms that are more transparent with respect to their CG practices relating to both shareholders and stakeholders are highly valued, it is expected that firms with high levels of transparent disclosure of CG practices for stakeholders are also more likely to disclose more transparent information on shareholder CG mechanisms, and thus the value creation is primarily through increased disclosure of shareholder CG practices rather than stakeholder ones. The statistical implication is that disclosing shareholder CG practices has moderating and intermediate effects on the relation between disclosing stakeholder CG practices and firm value.

Our proposition is supported by prior research. For example, Prior et al. (2008) suggest that managers who engage in earnings management are more likely to commit to high levels of CSR disclosures in order to reduce outrage from powerful stakeholders, such as shareholders. This can minimise the possibilities of managerial dismissals and reputational damage. Thus, increased CSR disclosures is largely an attempt by managers to entrench themselves by garnering the support of key stakeholders. Consistent with this prediction, and using a sample of 593 firms from 26 countries, Prior et al. (2008) report a positive association between earnings management and CSR disclosures. Similarly, and in a qualitative study, Jamali et al. (2008) report that a majority of top corporate managers interviewed in Lebanon considered disclosure of shareholder CG practices as an important pillar for the sustainable protection of stakeholder interests. This implies that firms that operate in the interests of shareholders through increased disclosure of CG practices are more likely to protect stakeholder interests.

Also, CG disclosure mechanisms aimed at protecting shareholder interests are arguably more directly related to firm value creation than those that seek to advance stakeholder rights. For example, a corporate board that is able to effectively monitor and discipline managers can directly increase firm value by reducing managerial expropriation of shareholder wealth (Jensen, 1993). By contrast, a firm that is able to meet employment equity provisions by providing local employment, for instance, can rather indirectly contribute to firm value, possibly through the legitimising effects on its local operations (Branco & Rodrigues, 2008). Further, in a 2006 survey, Mercer Consulting reports that whilst 64% of institutional investors considered shareholder CG disclosures to be very important to performance, only 39% regarded CSR disclosures to be relevant to firm value (Starks, 2009: 465) and therefore, our final hypothesis to be tested is that:

H₃: Disclosing shareholder CG practices contributes significantly more to firm value than disclosing stakeholder CG practices.

RESEARCH DESIGN

Our sample is based on all 291 non-financial³ firms listed on the Johannesburg Securities Exchange (JSE) Ltd as at 31/12/2007. We use CG and financial data to test our hypotheses. The CG disclosure variables were extracted from the annual reports of the sampled companies. The annual reports were obtained from the *Perfect Information Database*, while the financial data were collected from *DataStream*. The firms in our final sample had to meet two criteria: the availability of a company's full five year annual reports from 2002 to 2006 inclusive, and the availability of a company's corresponding financial data from 2003 to 2007 inclusive.⁴ These criteria were imposed for several reasons. First, and in line with past research (Henry, 2008), the criteria helped in meeting the requirements for a balanced panel data analysis, and its associated advantages in terms of having both time series and cross-sectional observations, more degrees of freedom and less collinearity among variables (Wooldridge, 2002; Gujarati, 2003).

A potential weakness is that it may introduce survivorship bias into the sample selection process. However, the criteria still generated a much larger sample size than what has been used in prior SA studies (Klapper & Love, 2004; Morey et al., 2009), and therefore, generalisation of the results of our study should arguably not be impaired by our sample selection criteria. Second, contrary to much of the existing literature that employs one-year cross-sectional data (Klapper & Love, 2004; Durnev & Kim, 2005), analysing five-year data with both cross-sectional and time series properties may help in ascertaining whether the observed cross-sectional association between comprehensive disclosure of CG practices and firm value also holds over time. Using the above criteria, the full data is collected for 169 out of the 291⁵ firms over five firm-years, giving a total of 845 firm-year observations from eight industries for our regression analyses.

Variables and Measures

We construct three main CG disclosure indices in order to test our hypotheses. First, we construct a disclosure index containing 41 provisions aimed at protecting shareholder interests based on King II covering four broad sections: (1) boards, directors and ownership; (2) accounting and auditing; (3) risk management, internal audit and control; and (4) compliance and enforcement, as a proxy for disclosures on shareholder CG practices (*CGSHARE*). Second, our proxy for disclosures relating to stakeholder CG practices (*CGSTAKE*) is a disclosure index containing 9 provisions that seeks to protect stakeholder interests based on the integrated sustainability reporting section of King II. Third, to test for the overall effect of all the CG disclosure practices on firm value, we combine the CG disclosure provisions contained in the *CGSHARE* and *CGSTAKE* to form the South African CG disclosure index (*SACGI*).⁶ These are detailed in the Appendix. All companies listed on the JSE are required to comply with the CG disclosure provisions or give reasons for non-compliance, enabling us to conduct our analyses.

All the CG disclosure indices are constructed by awarding a value of '1' for each of the 50 CG disclosure provisions of King II examined if disclosed in the annual report or '0' otherwise. With this scheme, a company's total CG disclosure score in a particular firm-year can vary between zero (0%) to 41 (100%), zero (0%) to nine (100%) and zero (0%) to 50 (100%) for the *CGSHARE*, *CGSTAKE* and *SACGI*, respectively, with firms providing more transparent information on their CG practices having higher index levels. Although this simple binary weighting scheme may fail to reflect the relative importance of different CG disclosure practices (Gompers et al., 2003), we adopt it for a number of reasons.

First, there is a general lack of a rigorously developed theoretical basis on which weights can be accurately assigned to the various CG disclosure practices (Black et al., 2006) and thus, using an unweighted coding scheme obviates a situation whereby the CG disclosure indices are unnecessarily dominated by a particular set of CG provisions. Second, an unweighted index is

transparent and easy to replicate (Beiner et al., 2006). Third, prior studies suggest that the use of weighted and unweighted indices tend to provide similar results (Botosan, 1997). Finally, an unweighted coding scheme is a well-established line of scoring CG disclosure practices in annual reports (Henry, 2008), and can also facilitate direct comparisons to be drawn with prior literature.

The measure of market valuation employed in our regression is the widely used Tobin's Q (Q), but as a robustness check, we employ total share returns (TSR) and return on assets (ROA) as alternative market and accounting-based firm value proxies, respectively, with our reported results being robust to both alternative firm value measures. To minimise potential omitted variables bias, we introduce below a number of control variables. Table 2 provides a summary of all variables employed.

Insert Table 2 about here

First, we predict a positive association between Q and sales growth ($GROWTH$), because firms with higher investment opportunities tend to grow relatively faster than those with limited investment opportunities (Durnev & Kim, 2005). Second, firms with greater investment in research and development can gain competitive advantages (Chen et al., 2010) and so, may have higher Q . By contrast, research and development is capital intensive (Henry, 2008) and as such, may impact negatively on current Q . Similarly, Jensen (1986) suggests that higher levels of gearing can increase performance by reducing agency conflicts associated with having excess cash flows by opportunistic managers. In contrast, greater financial distress associated with higher levels of gearing can inhibit the ability to exploit growth opportunities (Jensen, 1986). Also, due to greater agency problems, larger firms are likely to maintain more transparent CG disclosure regimes (Beiner et al., 2006) and thus, may have higher Q . By contrast, smaller firms have greater opportunities to grow (Klapper & Love, 2004) and hence, may have higher Q . Given the mixed literature, we predict that gearing ($GEAR$), capital expenditure ($CAPEX$) and firm size

(*LNTA*) will relate either positively or negatively to Q . Third, firms that cross-list on foreign stock markets tend to have transparent CG structures, as they are subjected to extra CG disclosure rules (Black et al., 2006) and thus, may have higher Q . Hence, we hypothesise a positive link between Q and cross-listing (*CROSLIST*).

Fourth, auditor independence and audit quality are positively associated with audit firm size (Barako et al., 2006), implying that firms audited by large and reputable audit firms may have higher Q . Hence, we predict a positive association between Q and audit firm size (*BIG4*). Fifth, we expect firms that voluntarily set up a CG committee to specifically monitor their compliance with King II to provide more transparent information on their CG practices and be valued higher than those that do not (Core, 2001) and thus, we predict a positive link between the presence of a CG committee (*CGCOM*) and Q . Finally, following prior research (Guest, 2009), we predict that Q will differ across different industries and financial years and as such, we introduce year (*YD*) and industry (*INDUST*) dummies for the five remaining industries.

We present the empirical analyses, including the descriptive statistics, bivariate and multivariate regression analyses and robustness tests in the following sections.

EMPIRICAL ANALYSES

Descriptive Statistics and Bivariate Regression Analyses

Table 3 reports descriptive statistics of the variables included in our regression analyses. It shows that Q ranges from a minimum of 0.67 to a maximum of 3.58 with an average of 1.55, indicating wide variation in market valuation among the sampled firms. Our alternative firm value proxies (*TSR* and *ROA*), as well as our *CGSHARE*, *CGSTAKE* and *SACGI* also show wide spreads. For example, the *SACGI* suggests that the scores range from a minimum of 6% to a maximum of 98% with the average firm complying with 61% of the 50 CG disclosure provisions analysed, an

indication that a high degree of heterogeneity exists when it comes to the importance that SA firms attach to CG disclosures. Somewhat surprisingly, compliance with the 9 stakeholder CG disclosure provisions of the SA CG code is on average higher than with the 41 shareholder CG disclosure provisions, with mean values of the *CGSHARE* and *CGSTAKE* at 60% and 69%, respectively. The alternative CG mechanisms (*BFSIZE*, *BLKOWN*, *INSOWN* and *LEV*), as well as the control variables, suggest wide spreads. This implies that the CG disclosure provisions and the sampled firms have been appropriately selected, and thus reduces the possibilities of sample selection bias that have arguably plagued much of the prior studies (Kapper & Love, 2004; Durnev & Kim, 2005).

Insert Table 3 about here

Table 4 contains the correlation matrix for the variables included in our analyses to test for multicollinearity. Apart from the expected high and significant correlations among the *CGSHARE*, *CGSTAKE* and *SACGI*, the correlations among the variables are relatively low, indicating that no major multicollinearity problems exist. Of interest, and in line with prior studies (Klapper & Love, 2004; Morey et al., 2009), the *CGSHARE*, *CGSTAKE* and *SACGI* are significant and positively related to *Q*, suggesting that increased disclosure of CG practices tend to be associated with higher market valuation. Additionally, there are significant relationships between the alternative CG mechanisms. For example, *BLKOWN* correlates negatively with the *SACGI*, implying that it appears to serve as a substitute for transparent CG practices. In contrast, *BFSIZE* and *INSOWN* correlate positively with the *SACGI*, indicating that the three CG mechanisms are complements.

Insert Table 4 about here

Multivariate Regression Analyses

As firms tend to differ in the opportunities and challenges that they encounter over time, this can result in a situation where disclosure of CG practices and firm value are jointly and dynamically determined by unobserved firm-specific variables, such as managerial quality and firm complexity (Henry, 2008; Guest, 2009), which simple OLS regressions may be unable to detect (Kraatz and Zajac, 2001; Wooldridge, 2002). Thus, given the panel nature of our data and in line with Henry (2008) and Guest (2009), we estimate our regressions using panel data estimation technique in order to address endogeneity problems that may arise from potential unobserved firm-level heterogeneity. We begin our analyses with a basic fixed-effects regression model specified as follows:

$$Q_{it} = \alpha_0 + \beta_1 CGSHARE_{it} + \sum_{i=1}^n \beta_i CONTROLS_{it} + \gamma_i + \varepsilon_{it} \quad (1)$$

where Q is the proxy for firm value, $CGSHARE$ refers to disclosure of shareholder CG practices and $CONTROLS$ refers to control variables, including $BIG4$, $CAPEX$, $CGCOM$, $CROSLIST$, $GEAR$, $GROWTH$, $LNTA$, $INDUST$, YD , and γ refers to the firm-specific fixed-effects, consisting of a vector of the mean-differences of all time variant variables.⁷

Table 5 reports fixed-effects regression results of disclosing CG practices on firm value. First, we examine whether disclosing shareholder CG practices ($CGSHARE$) is associated with firm value. The coefficient of Q on the $CGSHARE$ in Model I of Table 5 is positive and statistically significant, thereby providing support for H_1 that there is a positive association between disclosing shareholder CG practices and firm value. The financial implication of this evidence is that investors reward SA listed firms that provide more transparent information on their CG practices for shareholders with higher market valuation. The economic significance of this finding is indicated by the coefficient of 0.007 on the $CGSHARE$ in Model I, which suggests that, *ceteris paribus*, a 10% increase in the $CGSHARE$, for example, can be expected to be

associated with 0.07% improvement in market value. Our results generally provide support for the findings of prior studies (Black et al., 2006; Renders et al., 2010), but specifically to those of past cross-country studies whose samples include a small number of SA firms (Klapper & Love, 2004; Durnev & Kim, 2005; Morey et al., 2009).

Insert Table 5 about here

Second, in addition to being more transparent with CG practices that seek to operate the firm in the interests of shareholders, firms may elect to protect the interests of other stakeholders in the form of increased disclosure of stakeholder CG practices, which can also influence firm value. We therefore re-run equation (1) by replacing the *CGSHARE* with the stakeholder CG disclosure index (*CGSTAKE*) in order to separately examine the effect of disclosing stakeholder CG practices on firm value. The coefficient of Q on the *CGSTAKE* in Model II of Table 5 is positive and statistically significant, thereby providing new evidence to support H_2 , as well as empirical findings from the CSR literature (Branco & Rodrigues, 2008) that suggest that the market value of firms that provide more transparent information on stakeholder CG practices tend to be higher than those that do not. The economic significance of this evidence is indicated by the coefficient of 0.005 on the *CGSTAKE* in Model II, which implies that, *ceteris paribus*, a 10% increase in the *CGSTAKE*, for instance, can be expected to be associated with 0.05% increase in market value.

Within the SA context, apart from being part of King II and the JSE's listing rules, stakeholder CG disclosure provisions, such as employment equity and black empowerment, are backed by statutory legislation, as well as receive great political attention (Armstrong et al., 2006). Our finding is therefore consistent with listed firms, and especially large companies, committing to greater transparency, accountability and responsibility to stakeholders (Core, 2001; Mallin, 2002) in order to minimise potential political costs (Faccio, 2006) and legitimise their

operations (Branco & Rodrigues, 2008). Such firms can be expected to gain access to valuable resources that can facilitate growth and improve market valuation (Jensen, 2002; Nicholson & Kiel, 2003). Indeed, the significant positive correlation between the *CGSTAKE* and firm size (*LNTA*) in Table 4 supports this hypothesis.

Our finding also has direct implications for regulatory authorities in developing countries facing substantial socio-economic challenges, such as mass unemployment, high crime rate and widespread poverty that are currently contemplating or pursuing CG disclosure policy reforms. The evidence of a positive association between disclosing stakeholder CG practices and firm value provides a strong motivation for authorities in other emerging markets, such as those in Africa and Asia, that are pursuing CG policy reforms to extend CG disclosure rules to go beyond conventional financial aspects that are aimed at protecting narrow shareholder interests, to include those that seek to provide broad context specific socio-economic stakeholder needs.

Third, and given the evidence of higher market valuation separately for disclosing shareholder and stakeholder CG practices, respectively, we expect firms acquiring high transparency values on CG practices relating to both shareholders and stakeholders to be valued higher than those that do not. Hence, we re-regress equation (1) by replacing the *CGSHARE* with the South African CG disclosure index (*SACGI*), which includes all the CG disclosure provisions contained in both the *CGSHARE* and *CGSTAKE* in order to investigate the overall effect of disclosing CG practices on firm value. Statistically significant and positive effect of the *SACGI* on *Q* is discernible in Model III of Table 5, thereby providing further support for H_1 and H_2 . Overall, our results suggest that firms that commit to good governance in the form of greater transparency, accountability, social responsibility and disclosure (Dye, 2001; Mallin, 2002) are rewarded with higher market valuation, evidence which is entirely consistent with the

recommendations of King II, as well as findings from other markets (Gompers et al., 2003; Beiner et al., 2006; Chen et al., 2010).

Fourth, our evidence so far suggests that disclosing both shareholder and stakeholder CG practices contributes to firm value, but it is not clear whether shareholder or stakeholder CG disclosures contribute more to market value. In a regression containing both the *CGSHARE* and *CGSTAKE*, we will expect the stronger contributor to market value to dominate the other. We therefore re-run equation (1) by including both the *CGSHARE* and *CGSTAKE* to test for the relative value relevance of disclosing shareholder and stakeholder practices. The coefficient of Q on the *CGSHARE* in Model IV of Table 5 is positive and statistically significant, while the one on the *CGSTAKE* is positive, but statistically insignificant.⁸ This provides new evidence to support H_3 , as well as recent qualitative evidence (Jamali et al., 2008) and opinion-based survey (Starks, 2009) that indicate that institutional investors value disclosures on shareholder CG practices more highly than stakeholder ones. Statistically, the evidence provides new insights, which suggest that disclosing shareholder CG practices has an intermediate effect on the significant positive link between disclosing stakeholder CG practices and firm value tested in H_2 . Its financial implication is that firms with higher levels of transparency relating to CG practices for stakeholders are also more likely to disclose more information on CG practices for shareholders, resulting in a reduction of agency problems through increased alignment of managerial interests with those of investors. The positive investor perception of increased disclosure of shareholder CG practices then impacts positively on firm value, and thus the value creation is primarily through disclosures on shareholder rather than stakeholder CG practices.

Fifth, to investigate whether firms that engage in increased disclosure of shareholder CG practices are also more likely to make more stakeholder CG disclosures, we re-estimate equation (1) by replacing the *CGSHARE* with the *CGSTAKE* in addition to two newly created variables

(*CGSHARE_Dummy* and *INT_TERM_Dummy*) from the *CGSHARE* and *CGSTAKE* proxies. This test seeks to provide insights on the existence of a moderating effect of disclosing shareholder CG practices on the link between disclosing stakeholder CG practices and firm value suggested by H_2 . The *CGSHARE_Dummy* is a dummy variable, which is equal to 1 if the level of the *CGSHARE* is greater or equal to 33 (i.e., if the *CGSHARE* is at 80% or higher), whilst the *INT_TERM_Dummy* is an interaction variable created by interacting the *CGSHARE_Dummy* and *CGSTAKE* variables.⁹ Our hypothesis is that if the value of disclosing stakeholder CG practices is particularly high for firms that also provide more transparent information relating to shareholder CG practices, then in a regression containing all three variables, we will expect the coefficient on the *CGSHARE_Dummy* and *INT_TERM_Dummy* in addition to the *CGSTAKE* to be positive and statistically significant.

Consistent with our prediction, the coefficient of Q on all three variables in Model V of Table 5 is positive and statistically significant. The statistically significant and positive coefficient on the *CGSTAKE* provides further support for H_2 that providing more transparent information on stakeholder CG practices impacts positively on firm value. The statistically significant and positive coefficient on the *CGSHARE_Dummy* suggests that the value of disclosing stakeholder CG practices is particularly high for firms with high *CGSHARE* values. This sheds light on the existence of a moderating effect of disclosing shareholder CG practices on the association between disclosing stakeholder CG practices and firm value. The main financial implication is that the market value creation is mainly through increased disclosure of shareholder rather than stakeholder CG practices. Indeed, the high positive and statistically significant correlation between the *CGSHARE* and *CGSTAKE* in Table 4 indicates that firms with high levels of transparency on CG practices for shareholders are also more likely to make disclosures that are in the best interests of stakeholders, and we argue that the voluntary

disclosure (Core, 2001; Dye, 2001) of such information could lead to the creation of additional firm value. The economic significance of such incremental value for firms with high *CGSHARE* is indicated by the coefficient of 0.003 on the *INT_TERM_Dummy* in Model V, which implies that, *ceteris paribus*, a 10% increase in the *CGSTAKE*, for example, can be expected to be associated with 0.03% additional increase in the value of firms with high *CGSHARE* over and above the impact of *CGSTAKE* disclosure on companies with low *CGSTAKE* disclosure (i.e., 0.08% vs 0.05%).

Sixth, our results indicate that the *CGSHARE* is positively associated with firm value, but since it contains 41 CG disclosure provisions from four major categories, it is possible for the contributions from each category to firm value to vary, with some potentially contributing more to firm value and others contributing less. For example, given the fact that corporate board of directors is widely recognised as one of the most important CG mechanisms (Jensen, 1993; Yermack, 1996), it may be that CG provisions relating to the board, directors and ownership category contribute more to firm value than the others. To investigate this, we create four separate variables from the *CGSHARE* with each variable containing the respective CG provisions specified in Sections 1 to 4 of the Appendix as follows: CG provisions relating to corporate boards, directors and ownership (*CGBDO*); CG provisions relating to accounting and auditing (*CGAA*); CG provisions relating to risk management, internal audit and control (*CGRMIAC*); and CG provisions relating to encouraging voluntary compliance and enforcement (*CGEVCE*), whereby each variable is scaled to have a value between 0% and 100%.

To examine the relationship between each category and firm value, we first re-run equation (1) by replacing the *CGSHARE* with either the *CGBDO*, *CGAA*, *CGRMIAC* or *CGEVCE* at a time. The coefficients of *Q* on the *CGBDO*, *CGAA* and *CGRMIAC* in Models I to III of Table 6 are positive and statistically significant, whereas the one on the *CGEVCE* in Model

IV is positive, but statistically insignificant, implying that firm value is created mainly through providing more transparent information relating to corporate board structures, accounting and auditing, and risk management and internal control rather than via encouraging voluntary compliance and enforcement. To further investigate which of the four categories contributes more to firm value, we re-regress equation (1) by replacing the *CGSHARE* with the *CGBDO*, *CGAA*, *CGRMIAC* and *CGEVCE* together. In a regression containing all four categories, we expect to find varied contributions to firm value with the category contributing most to firm value dominating the others. Statistically significant and positive effect of the *CGBDO*, *CGAA* and *CGRMIAC* on *Q* is discernible in Model V of Table 6, whereas the one on the *CGEVCE* is positive, but again statistically insignificant. Consistent with existing theory (Jensen, 1993), the coefficient on the *CGBDO* is larger in magnitude, statistical and economic significance, indicating that comprehensive disclosure of corporate board mechanisms contributes more to firm value than the other three CG disclosure practices.

Insert Table 6 about here

Finally, the coefficients on the control variables in Models I to V of Tables 5 and 6 generally show the predicted signs. For example, and as hypothesised, *BIG4*, *CROSLIST* and *GROWTH* are statistically significant and positively associated with *Q*, while the coefficient on *LNTA* is negative and significantly related to *Q* in all 10 models investigated.

ROBUSTNESS ANALYSES

Our regression analyses so far do not take into account the possible existence of endogeneity problems and CG disclosure weighting scheme. The positive association between our comprehensive CG disclosure indices and firm value, for example, could consequently be

misleading. In this section, we examine how sensitive our results are to the presence of endogenous relationships and alternative CG disclosure weighting scheme.

Endogeneity Problems, Lagged Structure and Two-Stage Least Squares

As briefly noted previously, the presence of endogeneity problems can significantly affect empirical findings (Core et al., 2006). Generally, a variable is classified as endogenous if it is correlated with the error term (Wooldridge, 2002: 50), and arises mainly from omitted variable bias and simultaneity (Larcker & Rusticus, 2010: 186). With respect to our investigation, the endogeneity problem arises if the *SACGI* assumed to be exogenous in equation (1) is correlated with the error term (ε), in which case fixed-effects estimates may be biased and inconsistent. Omitted variable endogeneity arises if a relevant control variable is, for example, omitted from equation (1) due to data unavailability (Wooldridge, 2002: 50). Black et al. (2006) suggest, for instance, that firms may selectively appoint non-executive directors just to signal managers' intent to treat outside investors fairly, even though non-executive directors in practice may not be effective in monitoring and disciplining managers. Our *SACGI* will in this case wrongly proxy for an omitted variable (managers' intent). On the other hand, simultaneity arises if the independent variable is also simultaneously determined by the dependent variable (Wooldridge, 2002: 51). While we have assumed that firms providing more transparent information relating to their CG practices (higher *SACGI* scores) will be valued more highly, it may be that firms with higher market values (Q) are rather more likely to disclose more transparent information on their CG mechanisms, because they have better investment opportunities and rely more on external financing (Beiner et al., 2006; Chen et al., 2010).

Following Larcker and Rusticus (2010), we address these potential endogeneity problems in a number of ways, including by estimating: a lagged firm value-CG disclosure practices

structure and two-stage least squares (*2SLS*). First, and as noted previously, to address simultaneity problems that may arise due to the existence of a lagged CG disclosure practices and *Q* association, we follow prior research (Renders et al., 2010) to re-estimate equation (1) as a lagged structure specified as:

$$Q_{it} = \alpha_0 + \beta_1 CGSHARE_{it-1} + \sum_{i=1}^n \beta_i CONTROLS_{it-1} + \gamma_i + \varepsilon_{it-1} \quad (2)$$

where everything remains the same as defined in equation (1) except that we introduce a one year lag between *Q* and the CG disclosure indices (*CGSHARE*, *CGSTAKE* or *SACGI*) in which current year's *Q* depends on previous year's CG disclosure practices. Statistically significant and positive coefficient of Q_{t+1} ¹⁰ on the *CGSHARE*_{*t*}, *CGSTAKE*_{*t*} and *SACGI*_{*t*} is easily discernible in Models I to III of Table 7. While the magnitude of the lagged coefficients have slightly decreased, they are generally similar to those reported for Models I to III in Table 5, thereby indicating that our initial evidence of a positive association between firm value and CG disclosure index is robust to estimating a lagged structure. The similarity of the results from estimating lagged and un-lagged structures also suggests that time-series variation in the CG disclosure indices and *Q* is small.

Insert Table 7 about here

Second, to address endogeneity problems that may be caused by omitted variable bias, we adopt the widely used *2SLS* technique (Black et al., 2006; Henry, 2008). However, to ensure that the *2SLS* technique is appropriate, and following Beiner et al. (2006) and Larcker and Rusticus (2010), we first carried out the Durbin-Wu-Hausman exogeneity test (see Beiner et al., 2006: 267; Larcker & Rusticus, 2010: 191) to test for the existence of an endogenous relationship between the *SACGI* and *Q*. Applied to equation (1) where the *CGSHARE* is replaced with the *SACGI* (i.e., Model III of Table 5), the test rejects the null hypothesis of no endogeneity at the 5% level. Thus,

we conclude that the *2SLS* technique is appropriate and that our fixed-effects results may be spurious (biased and inconsistent).

In the first stage, we assume that the *SACGI* will be determined by the nine control variables and four alternative CG mechanisms. Due to greater agency problems, higher political and financial costs, and greater public scrutiny, larger firms are more likely to make more transparent CG disclosures (Beiner et al., 2006) and as such, we expect the size related variables, including *BIG4* and *LNTA* to be positively associated with the *SACGI*. Cross-listed firms are more likely to provide more transparent information on their CG practices as they tend to be subjected to additional accounting, CG and disclosure rules (Klapper & Love, 2004; Renders et al., 2010) and therefore, we hypothesise a positive link between *CROSLIST* and the *SACGI*. Firms with greater investment and growth opportunities will be expected to make comprehensive CG disclosures in order to attract cheaper external capital, including debt (Beiner et al., 2006; Chen et al., 2010) and hence, we predict that *CAPEX*, *GEAR*, *GROWTH* and *LEV* will correlate positively with the *SACGI*. We predict a positive association between *CGCOM* and the *SACGI* since firms that voluntarily set up a CG committee to specifically monitor compliance with CG rules can be expected to maintain high levels of transparency relating to their CG practices (Core, 2001; Ntim et al., 2011). Greater independence and monitoring power associated with larger boards can motivate managers to engage in comprehensive CG disclosures (Sheu et al., 2010) and hence, we expect *BFSIZE* to correlate positively with the *SACGI*. We hypothesise a negative link between *BLKOWN* and the *SACGI* because higher *BLKOWN* can act as a substitute for comprehensive CG disclosure practices by reducing agency problems through closer managerial monitoring (Jensen & Meckling, 1976). Due to their financial and information advantages (Core, 2001), *INSOWN* can impact positively on comprehensive disclosure of CG practices and thus, we

expect *INSOWN* to be positively related to the *SACGI*. We also expect the *SACGI* to differ across *INDUST* and *YD* and therefore, the first stage regression to be estimated is specified as:

$$SACGI_{it} = \alpha_0 + \beta_1 BSIZE_{it} + \beta_2 BLKOWN_{it} + \beta_3 INSOWN_{it} + \beta_4 LEV_{it} + \sum_{i=1}^n \beta_i CONTROLS_{it} + \varepsilon_{it} \quad (3)$$

Consistent with our predictions and evidence contained in Table 4, statistically significant and positive coefficient of the *SACGI* on *BFSIZE*, *INSOWN*, *LEV*, *BIG4*, *CROSLIST*, *GEAR* and *LNTA* is noticeable in Model IV of Table 7, whereas the one on *BLKOWN* is negative and statistically significant. The consistency of the coefficients in relation to the hypothesised signs and the good regression diagnostics, including the fairly high adjusted R^2 and F -value (Wooldridge, 2002; Larcker & Rusticus, 2010) in Model IV appear to suggest that the predicted *SACGI* (i.e., the instrumented part of the *SACGI*) is an appropriate instrument for the *SACGI*. We therefore re-estimate equation (1) specified as:

$$Q_{it} = \alpha_0 + \hat{\beta}_1 P_SACGI_{it} + \sum_{i=1}^n \beta_i CONTROLS_{it} + \varepsilon_{it} \quad (4)$$

where everything remains the same as defined in equation (1) except that we use the predicted *SACGI* (P_SACGI) from equation (3) as instrument for the *SACGI*. Statistically significant and positive effect of the P_SACGI on Q is discernible in Model V of Table 7, thereby implying that our evidence of a positive association between comprehensive disclosure of CG practices and firm value is not significantly sensitive to endogeneity problems that may arise from omitted variables. The slight increase in the coefficient (0.011) on the P_SACGI compared with the one (0.009) on the *SACGI* in Model III of Table 5 is generally consistent with previous evidence that instrumented parts of comprehensive CG disclosure practices tend to predict Q more strongly than the un-instrumented parts (Beiner et al. 2006; Black et al., 2006).

Alternative CG Disclosure Index Weighting Scheme

We conduct an additional sensitivity analysis, specifically relating to alternative CG disclosure weighting scheme. Similar to Beiner et al. (2006), we examine whether our results depend on the weighting of the five sections of our *SACGI*. As previously noted, all 50 CG disclosure provisions forming the *SACGI* are equally weighted, but the number of CG disclosure provisions varies across the five sections. Thus, this simple equal weighting scheme results in different weights being assigned to each of the five sections: *CGBDO* (54%), *CGAA* (12%), *CGRMIAC* (10%), *CGEVCE* (6%) and *CGSTAKE* (18%). To ascertain whether our results are sensitive to the weighting of the five sections, we construct alternative comprehensive CG disclosure indices for the *CGSHARE*, *CGSTAKE* and *SACGI*, defined as *weighted CG* disclosure index, in which each of the five sections is awarded equal weight of 20%. Our results, which for brevity are not reported in full, (but available upon request), indicate that the coefficients on the alternatively weighted *CGSHARE*, *CGSTAKE* and *SACGI* in the analysis of the cross-sectional variation in Q are positive (0.009, 0.007 and 0.011, respectively) and statistically significant, suggesting that our results are robust to this alternative weighting scheme.

SUMMARY AND CONCLUSIONS

This paper examines the impact on market value of disclosing a set of recommended good corporate governance (CG) practices using data on 169 South African (SA) listed firms from 2002 to 2007. This coincides with a period during which the SA authorities introduced CG disclosure policy reforms that uniquely require firms to provide more transparent information relating to good CG practices for both shareholders and stakeholders. This allows us to distinctively investigate the effect of disclosing shareholder and stakeholder CG practices on firm value, in addition to examining the relative value relevance of disclosing good CG practices on

shareholders versus stakeholders. Our study, therefore, extends, as well as makes, a number of new contributions to the extant literature.

First, agency theory suggests that disclosing shareholder CG practices can reduce agency problems by aligning the interests of shareholders and managers (Jensen & Meckling, 1976; Mallin, 2002). As disclosure of CG practices involves significant costs (Core, 2001; Dye, 2001), firms with high levels of information transparency on CG practices for shareholders send a distinctive and credible signal of increased alignment of their interests with those of investors. The positive view of investors of CG practices can then be expected to impact favourably on firm value through increased share prices (La Porta et al., 2002; Sheu et al., 2010). Consistent with agency theory and the findings of prior studies (Klapper & Love, 2004; Durnev & Kim, 2005), our results contribute to the literature by suggesting a positive relation between disclosing shareholder CG practices and firm value.

Second, we suggest that in emerging countries, such as SA facing profound socio-economic challenges, firms that protect the interests of stakeholders by engaging in increased disclosure of stakeholder CG practices can gain additional firm value. From a legitimacy theoretical view, disclosure of CG practices that seek to protect stakeholder interests, including employees and government, is a major way by which corporations can legitimise their operations (Branco & Rodrigues, 2008). On the other hand, resource dependence theory indicates that disclosing stakeholder CG practices can facilitate access to critical resources (Jensen, 2002; Nicholson & Kiel, 2003), which can result in improved firm value. Consistent with legitimacy and resource dependence theoretical predictions, we provide new evidence that suggests that disclosing stakeholder CG practices impacts positively on firm value. Our evidence also provides support for the findings of recent opinion-based institutional investor survey (Starks, 2009), as well as empirical evidence from the corporate social responsibility literature (Branco &

Rodrigues, 2008). Within the SA corporate context, our results suggest that greater commitment to increased transparency, accountability and responsibility to stakeholders appears to be a major way by which listed firms can reduce political costs and also gain access to resources to facilitate growth and improve firm value.

Third, we provide new insights on the moderating and intermediate effects of providing more transparent information on shareholder CG practices on the relation between disclosing stakeholder CG practices and firm value. We suggest that although disclosing CG practices on both shareholders and stakeholders contributes to firm value, our expectation is that companies that provide more transparent information on stakeholder CG mechanisms are also more likely to disclose more transparent information on shareholder CG practices. Therefore, disclosing stakeholder CG practices impacts positively on market value mainly through disclosing shareholder CG practices, and hence the value creation is mainly through providing more transparent information on CG practices for shareholders instead of stakeholders.

Our results make two new contributions to the extant literature by indicating that: providing more transparent information on shareholder CG practices contributes significantly more to firm value than their stakeholder counterparts; and companies with high levels of disclosure relating to shareholder CG practices are also more likely to protect the interests of stakeholders in the form of increased disclosure of stakeholder CG practices. Hence, our evidence, respectively, provides important insights on both the intermediate and moderating effects of disclosing shareholder CG practices on the association between disclosing stakeholder CG practices and firm value. It also provides support for prior evidence that suggests that institutional investors value shareholder CG practices higher than stakeholder ones (Jamali et al., 2008; Starks, 2009), as well as offers an empirical dimension to the debate on whether disclosing shareholder or stakeholder CG practices contributes more to firm value (Friedman, 1970; Letza et al., 2004).

Fourth, agency theory suggests that corporate board structures are one of the most important CG disclosure mechanisms that can effectively reduce agency conflicts between managers and shareholders in modern corporations (Jensen, 1993; Yermack, 1996). Our results contribute to literature by suggesting further that providing more transparent information on CG provisions relating to corporate boards and directors have a stronger association with firm value than other provisions. Our findings are generally robust across a number of econometric models that control for different types of endogeneity problems and weighting schemes, as well as different types of firm value proxies.

Fifth, our results have important policy, regulatory and practical implications, especially for companies, governments and authorities in other developing countries that are currently pursuing CG disclosure policy reforms. With respect to governments and regulatory authorities, given our evidence of a positive association between high levels of information transparency relating to CG practices for stakeholders and firm value, it provides them with a strong motivation to pursue CG policy reforms that formally extend CG disclosure rules to go beyond conventional financial aspects that are aimed at protecting narrow shareholder interests to include those that seek to provide broad context specific socio-economic stakeholder needs. Specifically, and given the context, it is suggested that CG policy reforms should explicitly seek to cover CG provisions that are equally relevant to both shareholders and other key corporate stakeholders, such as employees, communities, customers, creditors and suppliers. In the case of corporations, our evidence that listed companies can gain additional financial value by providing more transparent information on stakeholder CG practices implies that listed firms may need to pay serious attention to stakeholder CG practices and also in preparing the sustainability report.

Further, our evidence offers potential theoretical and empirical avenues for future research. With regards to theoretical extensions, our evidence implies that future studies can

potentially enrich their theoretical bases by drawing on the rich insights offered by other relevant, but rarely used CG theories, such as stakeholder and political cost to complement agency theory when investigating the financial implications of stakeholder CG disclosure practices (see Filatotchev and Boyd, 2009). In terms of empirical expansions, and given our focus on an Anglo-American CG model within a developing African context, our evidence paves the way for future studies that can explore the valuation consequences of disclosing stakeholder CG practices in different international governance environments. These may include: developed Anglo-American contexts that rely mainly on formal governance rules; Western European and Asian economies that depend mostly on informal mechanisms and concentrated ownership; Scandinavian nations that rely primarily on social norms and trust; transition economies that depend mainly on statutory rules; and Islamic countries where the primary governance mechanism is Sharia law (see Judge, 2010). This may contribute towards developing a global understanding of the relative effectiveness of disclosing stakeholder CG practices in comparative CG environments.

Finally, whilst our findings are important and robust, some caveats are in order. We use a binary coding scheme which treats every CG disclosure mechanism as equally important. Whilst results based on our equally weighted and the alternatively weighted indices are essentially similar, future studies may enrich their analysis by constructing weighted and un-weighted CG disclosure indices. Also, due to data limitations, we use a limited number of alternative CG disclosure mechanisms in our endogeneity or robustness analyses. As more data becomes available, future studies may need to introduce more mechanisms, such as data on the market for corporate control, in their analyses.

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NOTES

1. Bushman and Smith (2001), Core (2001), Dye (2001) and Healey and Palepu (2001) provide comprehensive reviews of the voluntary disclosure literature, especially on the economic consequences of disclosure, including CG practices.
2. See Gamble and Kelly (2001), Schilling (2001), Vinten (2001), and Letza, Sun, and Kirkbride (2004), amongst others.
3. For regulatory and capital structure reasons, as well as following prior research (Chen et al., 2010), the financial and utilities industries, with a total 111 listed firms, were excluded, leaving us with eight industries and 291 listed firms to be sampled. The industrial breakdown of this initial 291 sample is as follows: basic materials with 67 (23%) firms; consumer goods with 36 (12%) firms; consumer services with 62 (21%) firms; healthcare with 7 (3%) firms; industrials with 81 (28%) firms; oil & gas with 3 (1%) firms; technology with 31 (11%) firms; and telecoms with 4 (1%) firms.
4. It takes time for the effects of CG disclosure practices to be reflected in firm value (Render et al., 2010). Hence, as part of our robustness checks aimed at avoiding endogenous link between firm value and the disclosure of CG practices, we introduce a one year lag between disclosing CG practices and firm value such that a firm's value in any year (Q_t) depends on the previous year's CG disclosure practices (CG_{t-1}), similar to Renders et al. (2010). The sample begins from 2002 because data coverage in the *Perfect Information Database/DataStream* on SA listed firms is very limited until 2002 and crucially because King II came into operation in 2002.
5. For 94 of the 122 remaining firms, two or more years' financial data and annual reports were not available in the *DataStream/Perfect Information Database*. For the other 28 firms, neither financial data nor annual reports were available. The industrial breakdown of our final 169 sample is as follows: basic materials with 33 (19%) firms; consumer goods with 24 (14%) firms; consumer services with 35 (21%) firms; healthcare with 3 (2%) firms; industrials with 51 (30%) firms; oil & gas with 1 (1%) firms; technology with 19 (11%) firms; and telecoms with 3 (2%) firms. Additionally, and due to lack of sufficient number of observations in three industries, namely health care, oil & gas, and telecoms industries with three, one and three listed firms, respectively, observations from these industries were merged with the closest remaining five major industries. As a result, the three *healthcare* firms were added to the *consumer services* industry, the one *oil & gas* firm was included in the *basic materials* industry, while the three *telecoms* companies were included in the *technology* industry.
6. To test whether disclosing shareholder CG practices ($CGSHARE$) contributes more to firm value, we create two new CG disclosure variables as follows: $CGSHARE_Dummy$ – a dummy variable that takes the value of 1 if the level of the $CGSHARE$ is greater or equal to 80% (i.e., 33 out of 41), 0 otherwise; and an INT_TERM_Dummy – a variable created by interacting the $CGSHARE_Dummy$ and $CGSTAKE$ variables. Similarly, to test the impact of the different parts of the $CGSHARE$ variable on firm value, we create four additional CG disclosure variables representing the four sections that form the $CGSHARE$ as follows: CG disclosures relating to boards, directors and ownership ($CGBDO$); CG disclosures relating to accounting and auditing ($CGAA$); CG disclosures relating to risk management, internal audit and control ($CGRMIAC$); and CG disclosures relating to encouraging voluntary compliance and enforcement ($CGEVCE$). Also, and as part of our sensitivity analyses, we also include data available on four alternative CG mechanisms, including board size ($BSIZE$), block ownership ($BLKOWN$), institutional ownership ($INSOWN$) and leverage (LEV).
7. We follow Kraatz and Zajac (2001) and Guest (2009) in applying the mean-difference approach, which is more robust in the presence of heteroscedasticity (Wooldridge, 2002; Gujarati, 2003). However, we get similar results if we estimate our fixed-effects models by using the year dummy alternative instead of the mean-difference method.
8. Since the correlation between the $CGSHARE$ and $CGSTAKE$ is relatively high, our evidence may be affected by the problem of multicollinearity, although the Durbin-Watson statistic suggests otherwise. We circumvent this problem by running Q on the $CGSHARE$ and $CGSTAKE$ iteratively without the controls in order to examine their respective explanatory power. The results suggest an adjusted R^2 of 0.055 and 0.040 for the $CGSHARE$ and $CGSTAKE$, respectively, consistent with our main finding that the $CGSHARE$ contributes more to firm value than the $CGSTAKE$.
9. We thank an anonymous referee for this suggestion. Also, given that the average score for the $CGSHARE$ is 69% (see Table 3), we consider 80% to be sufficiently high to indicate that a firm engages in increased disclosure of shareholder CG practices. However, we get similar results if we use other levels or truncations, such as using a relatively low 70% (i.e., 29 out of 41) or high 90% (i.e., 37 out of 41) level of the index.
10. To clarify, and for brevity, we report both the lagged structure and $2SLS$ in the same table (i.e., Table 7) and therefore, to maintain consistency with the $2SLS$ variables, we apply a lead indicator on Q (Q_{t+1}) to indicate the lagged structure instead of a lagged indicator on the CG disclosure practices (CG_{t-1}) variables.

APPENDIX

Full List of the South African Corporate Governance Index Disclosures Based on King II

SECTION 1: COMPREHENSIVE BOARD, DIRECTORS AND OWNERSHIP DISCLOSURES

1. Whether the roles of chairperson and CEO/MD are split.
2. Whether the chairperson of the board is an independent non-executive director.
3. Whether the board is composed by a majority of non-executive directors (NEDs).
4. Whether the board meets at least four times in a year.
5. Whether individual directors' meetings record is disclosed.
6. Whether directors are clearly classified into executive, NED, and independent.
7. Whether chairperson's performance and effectiveness is evaluated and disclosed.
8. Whether CEO/MD's performance and effectiveness is appraised and disclosed.
9. Whether the board's performance and effectiveness is evaluated and disclosed.
10. Whether the board subcommittees' performance and effectiveness is evaluated.
11. Whether directors' biography, experience and responsibilities are disclosed.
12. Whether a policy that prohibits directors, officers and employees (insider) share dealings around the release of price sensitive information is disclosed.
13. The existence of the office of company secretary.
14. Whether a nomination committee has been established.
15. Whether the nomination committee consists of a majority independent NEDs.
16. Whether the chairperson of the nomination committee is an independent NED.
17. Whether the membership of the nomination committee is disclosed.
18. Whether the nomination committee's members' meetings attendance record is disclosed.
19. Whether a remuneration committee has been established.
20. Whether the remuneration committee is constituted entirely by independent NEDs.
21. Whether the chairperson of the remuneration committee is an independent NED.
22. Whether the membership of the remuneration committee is disclosed.
23. Whether the remuneration committee's members' meetings attendance record is disclosed.
24. Whether directors' remuneration, interests, and share options are disclosed.
25. Whether director remuneration philosophy and procedure is disclosed.
26. Whether directors' have access to free independent professional legal advice.
27. Whether share ownership by all insiders, including directors, officers, employees and employees' trust is less than 50% of the total company shareholdings.

SECTION 2: COMPREHENSIVE ACCOUNTING AND AUDITING DISCLOSURES

28. Whether an audit committee has been established.
29. Whether the audit committee is constituted by at least 2 independent NEDs with significant professional financial training and experience.
30. Whether the chairperson of the audit committee is an independent NED.
31. Whether the membership of the audit committee is disclosed.
32. Whether the audit committee's members' meetings attendance record is disclosed.
33. Whether a board statement on the going-concern status of the firm is disclosed.

SECTION 3: COMPREHENSIVE RISK MANAGEMENT, INTERNAL AUDIT AND CONTROL DISCLOSURES

34. Whether a risk management committee has been established.
35. Whether the risk committee's members' meetings attendance record is disclosed.
36. Whether a narrative on both actual and potential future systematic and non-systematic risks is disclosed.
37. Whether a narrative on existing internal control systems (including internal audit) is disclosed.
38. Whether a narrative on how current and future assessed company risks will be managed is disclosed.

SECTION 4: ENCOURAGING VOLUNTARY COMPLIANCE AND ENFORCEMENT

39. Whether a positive statement on the compliance or non-compliance with the corporate governance provisions of King II is disclosed.
40. Whether a narrative on how a firm is contributing towards the development of financial journalism is disclosed.
41. Whether a narrative on what a firm is doing to encourage shareholder activism, like having investor relations department and proxy voting is disclosed.

SECTION 5: INTEGRATED SUSTAINABILITY REPORTING (NON-FINANCIALS)

42. Whether a narrative on how a firm is actually complying with and implementing the broad-based black economic empowerment and empowerment of women laws, including black equity ownership, preferential procurement, enterprise development, and executive management control is disclosed.
43. Whether a narrative on how a firm is actually complying with and implementing employment equity laws in terms of gender, age, ethnicity and disabilities is disclosed.
44. Whether a narrative on how a firm is addressing the threat posed by HIV/Aids pandemic in South Africa is disclosed.
45. Whether a narrative on the actual measures taken by a firm to address occupational health and safety of its employees is disclosed.
46. Whether a narrative on how a firm is actually complying with and implementing rules and regulations on the environment is disclosed.
47. Whether a narrative on the existence of a code of ethics is disclosed.
48. Whether a firm's board is formed by at least 1 white and 1 non-white (board diversity on the basis of ethnicity) person.
49. Whether a firm's board is formed by at least 1 male and 1 female (board diversity on the basis of gender) person.
50. Whether a narrative on the actual community support and other corporate social investments or responsibilities is disclosed.

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Table 1

A Summary Comparison of Corporate Governance Disclosure Policy Reforms of the Cadbury, King I and II Reports

Governance Provisions	1992 Cadbury Report	1994 King Report (King I)	2002 King Report (King II)
<i>Boards and Directors:</i>			
Board structure	Unitary board	Unitary board	Unitary board
Non-executive directors	At least three	At least two	Majority of board members
Independent non-exec. directors	At least two	Not specified	Majority of non-executive directors
Role duality	Split chairperson and CEO	Split Chairperson and CEO	Split Chairperson and CEO
Chairperson independence	Non-executive director	Non-executive director	Independent non-executive director
Board meetings	Frequently/Regularly	At least once every quarter	At least once every quarter
Board committees	Audit, remuneration & nomination	Audit & Remuneration	Audit, remuneration & nomination
Director/insider share dealings	Not specified	Not specified	Prohibits insider trading
<i>Risk management, internal audit and control:</i>			
Risk management	Not covered	Not covered	Risk management/committee
Internal audit	Establish internal audit function	Establish internal audit function	Establish internal audit function
Internal control system	Establish internal control system	Establish internal control system	Establish internal control system
<i>Accounting and Auditing:</i>			
Auditing	Audit committee/auditors	Audit committee/auditors	Audit committee/internal auditor
Accounting/financial reporting	Accounting standards (GAAP)	Accounting standards (GAAP)	Accounting standards (IFRS)
<i>Compliance and enforcement:</i>	Board, institutional/shareholders and auditors	Board, institutional shareholders and Auditors	Board, institutional/shareholders, auditors, the courts, financial press, and peer pressure
<i>Integrated sustainability Reporting:</i>			
Ethics	Code of ethics	Code of ethics	Code of ethics
Environment	Not covered	Environment	Environment
Health and safety	Not covered	Health and safety	Health and safety
Affirmative/employment equity	Not covered	Affirmative action	Employment equity
Black empowerment	Not covered	Not covered	Black empowerment
HIV/AIDS	Not covered	Not covered	HIV
<i>Code Principles:</i>	Openness, integrity and Accountability	Accountability, fairness, Responsibility and transparency	Accountability, discipline, fairness, independence, responsibility, social responsibility & transparency
<i>Kind of Corporate Governance:</i>	Financial aspects of governance	Integrated corporate governance	Inclusive corporate governance
<i>Compliance or Regulation:</i>	Voluntary or self-regulation	Voluntary or self-regulation	Voluntary or self-regulation

Notes: Compiled from the 1992 UK Cadbury Report and the 1994 (King I) and 2002 (King II) South African King Reports

Table 2
Summary of Variables

Firm Value/Alternative Firm Value Variables	
Q	Ratio of total assets minus book value of equity plus market value of equity to total assets.
ROA	Percentage of operating profit to total assets.
TSR	Percentage of total share returns made up of share price and dividends.
Corporate Governance (CG)/Alternative CG Variables	
CGSHARE	CG disclosure index containing 41 provisions from King II aimed at protecting shareholder interests that takes a value of 1 if each of the 41 CG provisions is disclosed in the annual report, 0 otherwise; scaled to a value between 0% and 100%. These CG disclosure provisions are presented in Sections 1 to 4 of the Appendix.
CGSTAKE	CG disclosure index containing 9 provisions from King II that seeks to protect stakeholder interests that takes a value of 1 if each of the 9 CG provisions is disclosed in the annual report, 0 otherwise; scaled to have a value between 0% and 100%. These CG disclosure provisions are presented in Section 5 of the Appendix.
SACGI	CG index that combines the provisions contained in CGSHARE and CGSTAKE.
CGBDO	A sub-index of CGSHARE containing 27 CG disclosures relating to board, directors and ownership and scaled to have a value between 0% and 100%.
CGAA	A sub-index of CGSHARE containing 6 CG disclosures relating to accounting and auditing and scaled to have a value between 0% and 100%.
CGRMIAC	A sub-index of CGSHARE containing 5 CG disclosures relating to risk management, internal audit and control and scaled to have a value between 0% and 100%.
CGEVCE	A sub-index of CGSHARE containing 3 CG disclosures relating to encouraging voluntary compliance and enforcement and scaled to have a value between 0% and 100%.
CGSHARE_Dummy	A dummy variable that takes the value of 1 if the level of the CGSHARE is greater or equal to 80%, 0 otherwise.
INT_TERM_Dummy	A variable created by interacting the CGSHARE_Dummy and CGSTAKE variables.
BSIZE	Natural log of the total number of directors on the board of a company.
BLKOWN	Percentage of ordinary shares held by shareholders with at least 5% of the total company ordinary shareholdings.
INSOWN	Percentage of ordinary shares held by institutional shareholders.
LEV	Percentage of total debt to total assets.
Control Variables	
BIG4	1, if a firm is audited by a big four audit firm (PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young, and KPMG), 0 otherwise.
CAPEX	Percentage of total capital expenditure to total assets.
CGCOM	1, if a firm has set up a corporate governance committee, 0 otherwise
CROSLIST	1, if a firm is listed on a foreign stock market, 0 otherwise.
GEAR	Percentage of total debt to market value of equity.
GROWTH	Percentage of current year's sales minus previous year's sales to previous year's sales.
INDUST	Dummies for each of the five main industries: basic material + oil gas; consumer goods, consumer services + health care; industrials; and technology + telecoms firms.
LNTA	Natural log of total assets.
YD	Dummies for each of the five years from 2002 to 2006 and 2003 to 2007 inclusive, for the main and robustness regression analyses, respectively.

Table 3
Descriptive Statistics of all Variables for all (845) Firm Years

Variable	Mean	Median	Std. Dev.	Maximum	Minimum
Panel A: Firm Value/Alternative Firm Value Variables					
Q	1.55	1.33	0.68	3.58	0.67
ROA (%)	10.26	10.97	12.21	36.55	-23.19
TSR (%)	33.57	29.60	48.68	173.41	-55.20
Panel B: Corporate Governance (CG)/Alternative CG Variables					
CGSHARE (%)	59.74	60.98	18.59	97.56	4.88
CGSTAKE (%)	68.67	77.78	27.40	100.00	0.00
SACGI (%)	61.34	64.00	18.87	98.00	6.00
CGBDO (%)	54.61	53.85	20.03	100.00	7.69
CGAA (%)	73.71	83.33	24.46	100.00	0.00
CGRMIAC (%)	75.88	80.00	23.61	100.00	0.00
CGEVCE (%)	52.03	66.67	17.41	100.00	0.00
BSIZE	9.75	10.00	3.67	18.00	4.00
BLKOWN (%)	62.38	64.61	18.48	91.72	10.21
INSOWN (%)	74.21	82.13	22.86	97.69	9.42
LEV (%)	17.66	16.30	13.64	55.83	5.13
Panel C: Control Variables					
BIG4 (%)	73.25	100.00	44.28	100.00	0.00
CAPEX (%)	12.83	8.22	15.31	66.43	7.28
CGCOM (%)	32.21	0.00	47.08	100.00	0.00
CROSLIST (%)	21.66	0.00	41.22	100.00	0.00
GEAR (%)	32.14	17.62	30.81	78.31	1.36
GROWTH (%)	12.27	13.91	26.35	89.47	-44.21
LNTA	5.86	6.02	0.48	7.83	4.24

Notes: Variables are defined as follows: Tobin's Q (*Q*), defined as the ratio of total assets minus book value of equity plus market value of equity to total assets. Return on assets (*ROA*), measured as the percentage of operating profit to total assets. Total share returns (*TSR*), refers to the percentage of total share returns made up of change in share price and dividends. Disclosure of shareholder CG practices (*CGSHARE*), refers to a CG disclosure index containing 41 provisions from King II aimed at protecting shareholder interests that takes a value of 1 if each of the 41 CG provisions is disclosed in the annual report, 0 otherwise and counts the number of the 41 CG provisions disclosed in the annual report; scaled to have a value between 0% and 100%. These CG disclosure provisions are presented in Sections 1 to 4 of the Appendix. Disclosure of stakeholder CG practices (*CGSTAKE*), refers to a CG disclosure index containing 9 provisions from King II that seeks to protect stakeholder interests that takes a value of 1 if each of the 9 CG provisions is disclosed in the annual report, 0 otherwise and counts the number of the 9 CG provisions disclosed in the annual report; scaled to have a value between 0% and 100%. These CG disclosure provisions are presented in Section 5 of the Appendix. South African CG disclosure index (*SACGI*), is a CG disclosure index that combines the provisions contained in the *CGSHARE* and *CGSTAKE*. *CGBDO* is a sub-index of *CGSHARE* containing 27 CG disclosures relating to board, directors and ownership and scaled to have a value between 0% and 100%. *CGAA* is a sub-index of *CGSHARE* containing 6 CG disclosures relating to accounting and auditing and scaled to have a value between 0% and 100%. *CGRMIAC* is a sub-index of *CGSHARE* containing 5 CG disclosures relating to risk management, internal audit and control and scaled to have a value between 0% and 100%. *CGEVCE* is a sub-index of *CGSHARE* containing 3 CG disclosures relating to encouraging voluntary compliance and enforcement and scaled to have a value between 0% and 100%. Board size (*BSIZE*), is the natural log of the total number of directors on the board of a company. Block ownership (*BLKOWN*), is measured as the percentage of ordinary shares held by shareholders with at least 5% of the total company ordinary shareholdings. Institutional ownership (*INSOWN*), defined as the percentage of ordinary shares held by institutional shareholders. Leverage (*LEV*), is the percentage of total debt to total assets. Audit firm size (*BIG4*), is a dummy variable that takes the value of 1 if a firm is audited by a big four audit firm (PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young, and KPMG), 0 otherwise. Capital expenditure (*CAPEX*), is defined as the percentage of total capital expenditure to total assets. The presence of a CG committee (*CGCOM*), is a dummy variable that takes the value of 1 if a firm has set up a CG committee, 0 otherwise. Cross-listing (*CROSLIST*), is a dummy variable that takes the value of 1 if a firm is listed on a foreign stock market, 0 otherwise. Gearing (*GEAR*), is measured as the percentage of total debt to market value of equity. Sales growth (*GROWTH*), is defined as the percentage of current year's sales minus previous year's sales to previous year's sales and firm size (*LNTA*), is measured as the natural log of total assets.

Table 4
Correlation Matrix of the Variables for all (845) Firm Years

Variable	Q	SACGI	CGSTAKE	CGSHARE	BSIZE	BLKOWN	INSOWN	LEV	GROWTH	CAPEX	LNTA	GEAR	BIG4	CROSLIST
Q	1.00													
SACGI	.32***	1.00												
CGSTAKE	.23***	.73***	1.00											
CGSHARE	.29***	.94***	.59***	1.00										
BSIZE	.13***	.58***	.51***	.55***	1.00									
BLKOWN	.06	-.18***	-.08 [†]	-.20***	-.07	1.00								
INSOWN	.16***	.31***	.32***	.26***	.28***	.37***	1.00							
LEV	-.13***	-.00	.03	.01	.13***	.10*	.10*	1.00						
GROWTH	.08 [†]	.04	.09*	.08 [†]	.09*	.03	.05	-.09*	1.00					
CAPEX	-.35***	-.20***	-.12***	-.11***	-.08 [†]	.05	.08 [†]	.32***	-.06	1.00				
LNTA	-.10*	.53***	.51***	.58***	.50***	-.18***	.26***	-.13***	.12***	-.04	1.00			
GEAR	-.38***	-.23***	-.18***	-.26***	-.08 [†]	.05	.08 [†]	.57***	-.07	.39***	-.04	1.00		
BIG4	.13***	.41***	.31***	.39***	.37***	-.06	.13***	-.03	.02	-.01	.42***	.08 [†]	1.00	
CROSLIST	.20***	.40***	.38***	.35***	.37***	-.04	.18***	.04	-.01	-.10*	-.42***	.10*	.26***	1.00

Notes: The table presents Pearson's parametric correlation coefficients. ***, **, * and [†] denote correlation is significant at the .1%, 1%, 5% and 10% level, respectively (two-tailed tests). Variables are defined as follows: Tobin's Q (*Q*), the South African CG disclosure index (*SACGI*), disclosure of stakeholder CG practices (*CGSTAKE*), disclosure of shareholder CG practices (*CGSHARE*), board size (*BSIZE*), block ownership (*BLKOWN*), institutional ownership (*INSOWN*), leverage (*LEV*), sales growth (*GROWTH*), capital expenditure (*CAPEX*), firm size (*LNTA*), gearing (*GEAR*), audit firm size (*BIG4*) and cross-listing (*CROSLIST*). Tables 2 and 3 provide the full definitions of all the variables used.

TABLE 5
Effect of Governance-Practice Disclosure on Firm Value with Fixed-Effects Regressions

Dependent Variable	Model I		Model II		Model III		Model IV		Model V	
	Q _t		Q _t		Q _t		Q _t		Q _t	
Independent Variables	Coefficients	P-Values	Coefficients	P-Values	Coefficients	P-Values	Coefficients	P-Values	Coefficients	P-Values
<i>Governance Disclosures:</i>										
CGSHARE _t	0.007	(0.000) ^{***}	-	-	-	-	0.009	(0.000) ^{***}	-	-
CGSTAKE _t	-	-	0.005	(0.000) ^{***}	-	-	0.001	(0.160)	0.005	(0.004) ^{**}
SACGI _t	-	-	-	-	0.009	(0.000) ^{***}	-	-	-	-
CGSHARE_Dummy _t	-	-	-	-	-	-	-	-	0.290	(0.000) ^{***}
INT_TERM_Dummy _t	-	-	-	-	-	-	-	-	0.003	(0.020) [*]
<i>Controls:</i>										
BIG4 _t	0.180	(0.000) ^{***}	0.171	(0.003) ^{**}	0.186	(0.000) ^{***}	0.182	(0.000) ^{***}	0.165	(0.000) ^{***}
CAPEX _t	-0.025	(0.490)	-0.020	(0.504)	-0.037	(0.458)	-0.030	(0.475)	-0.117	(0.085) [†]
CGCOM _t	-0.061	(0.439)	-0.059	(0.474)	-0.075	(0.396)	-0.034	(0.710)	-0.038	(0.697)
CROSLIST _t	0.373	(0.000) ^{***}	0.367	(0.000) ^{***}	0.386	(0.000) ^{***}	0.310	(0.000) ^{***}	0.305	(0.000) ^{***}
GEAR _t	-0.053	(0.260)	-0.032	(0.494)	-0.064	(0.315)	-0.046	(0.385)	-0.040	(0.412)
GROWTH _t	0.178	(0.000) ^{***}	0.172	(0.000) ^{***}	0.189	(0.000) ^{***}	0.175	(0.000) ^{***}	0.184	(0.000) ^{***}
LNTA _t	-0.260	(0.000) ^{***}	-0.251	(0.000) ^{***}	-0.308	(0.000) ^{***}	-0.258	(0.000) ^{***}	-0.263	(0.000) ^{***}
INDUST	Included	-	Included	-	Included	-	Included	-	Included	-
YD	Included	-	Included	-	Included	-	Included	-	Included	-
Constant	1.879	(0.000) ^{***}	1.960	(0.000) ^{***}	2.137	(0.000) ^{***}	2.120	(0.000) ^{***}	2.264	(0.000) ^{***}
Standard Error	0.473		0.516		0.425		0.526		0.510	
Durbin-Watson	2.140		2.051		2.308		2.234		2.250	
F-Value	15.907 ^{***}		14.013 ^{***}		17.020 ^{***}		13.530 ^{***}		15.473 ^{***}	
Adjusted R ²	0.483		0.461		0.529		0.440		0.458	
Number of Observations	845		845		845		845		845	

Notes: This table presents the estimated fixed-effects coefficients from five different models examining the effects of disclosing corporate governance (CG) practices on firm value as follows: Model I examines whether disclosing shareholder CG practices contributes to firm value; Model II investigates whether disclosing stakeholder CG practices contributes to firm value; Model III examines the overall effect of both disclosing shareholder and stakeholder CG practices on firm value; Model IV investigates whether disclosing shareholder or stakeholder CG practices contributes more to firm value; and Model V examines whether the value of disclosing stakeholder CG practices is particularly high for firms with high levels of shareholder CG disclosure practices. Variables are defined as follows: Tobin's Q (Q), disclosure of shareholder CG practices (CGSHARE), disclosure of stakeholder CG practices (CGSTAKE), South African CG disclosure index (SACGI), audit firm size (BIG4), capital expenditure (CAPEX), the presence of a CG committee (CGCOM), cross-listing (CROSLIST), gearing (GEAR), sales growth (GROWTH), firm size (LNTA), industry dummies (INDUST) and year dummies (YD). The CGSHARE_Dummy is a dummy variable that takes the value of 1 if the level of the CGSHARE is greater or equal to 80% (i.e., 33 out of 41), 0 otherwise, and the INT_TERM_Dummy is an interaction variable created by interacting the CGSHARE_Dummy and CGSTAKE variables. Tables 2 and 3 provide the full definitions of all the variables used. Coefficients are in front of parenthesis. Following Petersen (2009), coefficients are estimated by using the robust clustered standard errors technique. ***, **, * and † denote significance at the .1%, 1%, 5% and 10% level, respectively (two-tailed tests).

Table 6
Effect of Shareholder Governance-Practice Disclosure on Firm Value with Fixed-Effects Regressions

Dependent Variable	Model I		Model II		Model II		Model IV		Model V	
	Q _t		Q _t		Q _t		Q _t		Q _t	
Independent Variables	Coefficients	P-Values	Coefficients	P-Values	Coefficients	P-Values	Coefficients	P-Values	Coefficients	P-Values
<i>Governance Disclosures:</i>										
CGBDO _t	0.005	(0.000) ^{***}	-	-	-	-	-	-	0.006	(0.000) ^{***}
CGAA _t	-	-	0.003	(0.000) ^{***}	-	-	-	-	0.004	(0.015) [*]
CGRMIAC _t	-	-	-	-	0.003	(0.000) ^{***}	-	-	0.005	(0.000) ^{***}
CGEVCE _t	-	-	-	-	-	-	0.001	(0.189)	0.001	(0.190)
<i>Controls:</i>										
BIG _t	0.125	(0.046) [*]	0.118	(0.070) [†]	0.123	(0.050) [*]	0.119	(0.085) [†]	0.140	(0.038) [*]
CAPEX _t	-0.040	(0.780)	-0.033	(0.796)	-0.060	(0.602)	-0.030	(0.801)	-0.117	(0.089) [†]
CGCOM _t	-0.036	(0.690)	-0.012	(0.878)	-0.032	(0.701)	-0.040	(0.625)	-0.084	(0.302)
CROSLIST _t	0.250	(0.000) ^{***}	0.272	(0.000) ^{***}	0.298	(0.000) ^{***}	0.275	(0.000) ^{***}	0.270	(0.000) ^{***}
GEAR _t	-0.041	(0.325)	-0.034	(0.485)	-0.050	(0.287)	-0.035	(0.479)	-0.038	(0.456)
GROWTH _t	0.165	(0.000) ^{***}	0.163	(0.000) ^{***}	0.156	(0.000) ^{***}	0.160	(0.000) ^{***}	0.169	(0.000) ^{***}
LNTA _t	-0.240	(0.000) ^{***}	-0.235	(0.000) ^{***}	-0.214	(0.000) ^{***}	-0.208	(0.000) ^{***}	-0.252	(0.000) ^{***}
INDUST	Included	-	Included	-	Included	-	Included	-	Included	-
YD	Included	-	Included	-	Included	-	Included	-	Included	-
Constant	1.172	(0.000) ^{***}	1.136	(0.000) ^{***}	1.128	(0.000) ^{***}	1.010	(0.000) ^{***}	1.214	(0.000) ^{***}
Standard Error	0.562		0.603		0.618		0.620		0.545	
Durbin-Watson	2.008		1.987		1.940		1.970		2.120	
F-Value	9.946		9.368		8.925		8.563		11.058	
Adjusted R ²	0.350		0.340		0.338		0.326		0.369	
Number of Observations	845		845		845		845		845	

This table presents the estimated fixed-effects coefficients from five different models examining the effects of the different components of disclosing shareholder corporate governance (CG) practices (*CGSHARE*) on firm value as follows: Model I examines whether transparent board, director and ownership disclosure practices contributes to firm value; Model II investigates whether transparent accounting and auditing disclosure practices contributes to firm value; Model III examines whether transparent risk management, internal control and audit disclosure practices contributes to firm value; Model IV investigates whether transparent practices aimed at encouraging voluntary compliance with the CG disclosure rules contained in King II contributes to firm value; and Model V investigates which of the four components contributes more to firm value. Variables are defined as follows: Tobin's Q (Q), CG disclosure provisions relating to board, directors and ownership (*CGBDO*), CG disclosure provisions relating to accounting and auditing (*CGAA*), CG disclosure provisions relating to risk management, internal audit and control (*CGRMIAC*), CG disclosure provisions relating to encouraging voluntary compliance and enforcement (*CGEVCE*), audit firm size (*BIG4*), capital expenditure (*CAPEX*), the presence of a CG committee (*CGCOM*), cross-listing (*CROSLIST*), gearing (*GEAR*), sales growth (*GROWTH*), firm size (*LNTA*), industry dummies (*INDUST*) and year dummies (*YD*). The CG disclosure provisions contained in the *CGBDO*, *CGAA*, *CGRMIAC* and *CGEVCE* are specified in Sections 1, 2, 3 and 4 of the Appendix, respectively. Tables 2 and 3 provide the full definitions of all the variables used. Coefficients are in front of parenthesis. Following Petersen (2009), coefficients are estimated by using the robust clustered standard errors technique. ***, **, * and † denote significance at the .1%, 1%, 5% and 10% level, respectively (two-tailed tests).

Table 7
Effect of Governance-Practice Disclosure on Firm Value: Controlling for Endogeneity

Dependent Variable	Lagged CG Disclosure Variables			Two-Stage Least Squares	
	Q _{t+1} (I)	Q _{t+1} (II)	Q _{t+1} (III)	1 st Stage (SACGI _t) (IV)	2 nd Stage (Q _t) (V)
<i>Governance Disclosures:</i>					
CGSHARE _t	0.006*** (0.000)	-	-	-	-
CGSTAKE _t	-	0.004** (0.006)	-	-	-
SACGI _t /P_SACGI _t	-	-	0.008*** (0.000)	-	0.011*** (0.000)
BSIZE _t	-	-	-	0.189*** (0.000)	-
BLKOWN _t	-	-	-	-0.112*** (0.000)	-
INSOWN _t	-	-	-	0.106*** (0.000)	-
LEV _t	-	-	-	0.080** (0.010)	-
<i>Controls:</i>					
BIG4 _t	0.176*** (0.000)	0.165** (0.007)	0.180*** (0.000)	0.375*** (0.000)	0.187* (0.033)
CAPEX _t	-0.020 (0.510)	-0.015 (0.539)	-0.030 (0.480)	0.010 (0.979)	-0.219* (0.017)
CGCOM _t	-0.046 (0.491)	-0.034 (0.560)	-0.058 (0.430)	0.268*** (0.000)	-0.076 (0.405)
CROSLIST _t	0.359*** (0.000)	0.348*** (0.000)	0.362*** (0.000)	0.345*** (0.000)	0.318*** (0.000)
GEAR _t	-0.036 (0.562)	-0.028 (0.519)	-0.052 (0.349)	0.019 (0.483)	-0.047 (0.396)
GROWTH _t	0.169*** (0.000)	0.164*** (0.000)	0.182*** (0.000)	0.078 (0.254)	0.210*** (0.000)
LNTA _t	-0.245 (0.000)	-0.232*** (0.000)	-0.280*** (0.000)	0.295*** (0.000)	0.278*** (0.000)
INDUST	Included	Included	Included	Included	Included
YD	Included	Included	Included	Included	Included
Constant	1.750*** (0.000)	1.639*** (0.000)	2.020*** (0.000)	-0.486*** (0.000)	0.498*** (0.000)
Standard Error	0.490	0.534	0.449	0.534	0.560
Durbin-Watson	2.132	1.986	2.250	2.497	2.134
F-Value	13.695***	12.893***	15.740***	16.109***	11.685***
Adjusted R ²	0.437	0.429	0.487	0.538	0.369
Number of Observations	845	845	845	845	845

Notes: This table presents the estimated coefficients from five different models examining the effect of corporate governance (CG) disclosure rules on firm value after taking into account potential endogeneity problems. Models I to III examine the effect of lagged shareholder, stakeholder and the overall CG disclosure indices on firm value, respectively. Models IV and V present the coefficients from the first and second stage estimations from a two-stage least squares, respectively. Variables are defined as follows: Tobin's Q (Q), shareholder (CGSHARE), and stakeholder disclosure practices (CGSTAKE), South African CG disclosure index (SACGI)/predicted SACGI from Model IV (P_SACGI), board size (BSIZE), block ownership (BLKOWN), institutional ownership (INSOWN), leverage (LEV), audit firm size (BIG4), capital expenditure (CAPEX), the presence of a CG committee (CGCOM), cross-listing (CROSLIST), gearing (GEAR), sales growth (GROWTH), firm size (LNTA), industry dummies (INDUST) and year dummies (YD). Tables 3 and 4 provide the full definitions of all the variables used. P-values are in the parenthesis. Following Petersen (2009), coefficients are estimated by using the robust clustered standard errors technique. ***, **, * and † denote significance at the .1%, 1%, 5% and 10% level, respectively (two-tailed tests).