Investigating the mediating role of national governance bundles and institutional ownership on the relationship between risk governance disclosure and market valuation: Evidence from Sub-Saharan Africa.

Abstract

***Purpose*:** The paper comparatively examines the impact of risk governance disclosure (RGD) on the market valuation of firms in Sub-Saharan Africa (SSA) and the mediating role of institutional investment and national governance bundles (NGB).

Design/methodology/approach: Employing a dynamic system generalized method of moments (GMM) estimation to control for endogeneity, the data for this research is manually collected from the annual reports of small and large firms in Nigeria (80 firms) and South Africa (100 firms) for the period 2012 to 2017 (900 firm years).

Findings: We find that firm risk governance disclosure directly impacts firm valuation positively, but this association is significantly mediated by national governance practices (bundles) and institutional investment. We also develop a conceptual framework that shows the direct and indirect impact of risk governance disclosure on firm market valuation.

Originality/value: The paper contributes to the comparative corporate governance (CG) literature in three ways. First, we show that differences in country-level risk governance disclosure are explained by the maturation of governance regulations and institutions in each country. Second, despite the differences in the level of maturity of governance institutions across countries, stock markets value risk governance information. Lastly, the study develops a conceptual framework that addresses prior inconsistent findings by showing that firm-level NGB and institutional investment significantly mediate the association between risk governance disclosure and market valuation.

Keywords: **Risk Governance Disclosure, Market Valuation, Sub-Saharan Africa, Institutional Ownership, National Governance Bundles, Nigeria, South Africa.**

1 Introduction

This study examines the impact of risk governance disclosure (hereafter, RGD) on firm market value and the mediating role of institutional investment and national governance bundles. The disclosure of annual

report information concerning risks faced by listed firms is highly valued by investors (Acik et al., 2022; Amran et al., 2008; Hiebl, 2019). The literature suggests that investors in developed economies, such as the US and other European countries, are demanding more information relating to firms' risk exposures and pertinent risk management strategies (Areneke et al., 2022b; Dobler et al., 2011). The demand for increased corporate risk disclosures has also continued to grow in the aftermath of the 2007/2008 global financial crisis (Acik et al., 2022; Saggar and Singh, 2017). One key benefit of increased RGDs is enhanced transparency and corporate accountability (Areneke et al., 2022a, 2023; Ghoul et al., 2017). This helps to reduce information asymmetries between shareholders and firm managers (Aguilera et al., 2012; Weinstein, 2012). Firms with low information asymmetry experience minimal agency conflicts, incur lower agency costs and are subsequently valued highly by the market (Areneke et al., 2022a; Fama, 1980; Ghoul et al., 2017).

However, despite the importance of risk management and associated disclosures on firm valuation (Khlif and Hussainey, 2016; Lim and Tan, 2007; Ntim et al., 2012), there is limited literature focusing on emerging markets compared to Western markets, especially in the African context. Indeed, evidence of single-country and cross-country studies in Africa is scant, even with the continent being" traditionally viewed as high-risk by international investors" (Areneke et al., 2022b; Ntim et al., 2013; Okeahalam, 2004). In addition, despite the growing development of corporate governance reforms across many African countries (see Areneke et al., 2022b), which has included some risk governance provisions, the value relevance of corporate risk governance disclosure in Africa has been under-researched and comparative studies of different governance systems and institutional settings are scant. We believe emerging markets of African origin provide a peculiar research context to explore further due to their low level of capital market development (Machokoto et al., 2020), weak institutions and enforcement mechanisms (Areneke and Kimani, 2019), which makes it difficult for firms to access external capital. Also, these markets have been reported to have high levels of information asymmetry (Areneke et al., 2022a; Areneke and Kimani, 2019) intertwined with weak regulatory practices, which perpetuates practices such as corruption, elitism and political affiliations in the management of firms (Adegbite, 2012). Thus, the realities of these institutional settings are markedly different from those of the West and other settings. Therefore, results from other settings may not be generalised to the African setting, which offers an interesting context to explore further the relationship between RGD and market value.

Concurrently, the little research that has examined the value relevance of RGD on firm value is unsettled, with some authors reporting a positive (e.g., Elshandidy et al., 2022), negative (e.g., Haj-Salem et al., 2020) and no effect (e.g., Elshandidy and Neri, 2015). We contend that the seemingly equivocal results are due to the lack of exploration of whether other corporate governance factors may mediate the relationship between RGD and firm value. This is particularly important in emerging markets with weak institutional systems that make the implementation of regulations futile (see Adegbite, 2012; Areneke et al., 2022b, 2019), and hence other CG mechanisms may be the medium through which RGD affect market valuation. Interestingly, prior research has shown most of the ownership in these markets is in the form of institutional shareholding (Areneke et al., 2022a; Loncan, 2020). Institutional shareholders in this context have been noted to enhance monitoring of management (Loncan, 2020) and improve the quality of governance and risk disclosures (Areneke et al., 2022a), which reduces the cost of capital and enhances market valuation. Similarly, as noted earlier, many emerging countries of African origin have implemented CG regulations in the form of CG codes, which firms are required to apply (Areneke et al., 2022b). However, the application of these codes varies from country to country, depending on the enforcement level (Areneke et al., 2022b). Compliance with these country-level codes (also known as national governance bundle) which includes some risk governance provisions, has been reported to be highly valued by investors (see Aboud and Diab, 2018; Aguilera et al., 2012; Wang et al., 2020). Drawing from the foregoing, it is plausible to expect that other CG mechanisms, such as institutional investment and national governance bundles, which have been reported to affect both RGD and market value, may mediate the RGD-market value nexus. We argue that, due to the weak implementation of laws in emerging markets, the impact of RGD on market value may be mediated by institutional ownership and national governance bundles. Drawing on this, we address two non-trivial questions that have not been examined. (i) Does risk governance disclosure affect market value in emerging markets? (ii) Does institutional ownership and national governance bundles mediate this relationship? Thus, the paper contributes to the existing literature by analysing whether risk governance disclosure affects the market value of firms in Sub-Saharan Africa (SSA) and if this nexus is mediated by national governance bundles (NGB) and institutional investment.

In emerging economies, RGD is argued to be an indispensable requirement for effective shareholder engagement (Claessens and Yurtoglu, 2013; Elshandidy et al., 2022). This is because these markets exhibit

multiple risks and inefficiencies, and their institutional environments are also complex and uncertain compared to their developed counterparts (Areneke et al., 2022a; Matsane et al., 2022; Ngobo and Fouda, 2012; Zhang et al., 2016). Thus, governance and disclosure of risks faced by firms operating within emerging economies represent a crucial factor in attracting and retaining foreign capital.

As some authors (see, for example, Elshandidy et al., 2022; Mangena and Tauringana, 2007; Ntim et al., 2012) have noted, corporate risk disclosure enhances the confidence of both local and foreign investors and their willingness to invest. In this regard, this paper contends that firms operating in developing economies (particularly in SSA) have a higher responsibility to provide greater RGDs. Furthermore, scholarly evidence suggests that risk governance information disclosure often varies across firms and industries (Elshandidy et al., 2022; Gordon et al., 2009). Similarly, the literature indicates that RGD requirements are higher in developed countries than in emerging economies due to robust regulatory environments and corporate governance (CG) enforcement (Amran et al., 2008; Elshandidy et al., 2022; Li et al., 2013). We opine that firms with greater RGDs are likely to (i) be viewed favourably by the market, (ii) have access to low-cost capital, and (iii) subsequently enjoy increased valuation.

In appreciation of the foregoing, some African countries are beginning to integrate risk management and governance disclosure requirements within their CG codes (Areneke et al., 2022b). Such codes contain provisions specifically compelling firms to provide disclosures concerning their risk profiles, i.e., a description of risks faced by each firm along with the risk management plans and policies relative to each firm's risk appetite. Considering these observations, the present study investigates the impact of risk governance disclosure on the valuation of publicly listed firms in SSA, relying on the Nigerian and South African cases (we will discuss the peculiarities of the two countries later).

Using manually collected data from annual reports from small and large firms in Nigeria (80 firms) and South Africa (100 firms) for the period 2012 to 2017 (900 firm years), we show that there is a growing trend in RGD amongst SSA firms. However, we observe significantly high levels of firm and country variations in RGDs across the sample countries. Second, we find that an increase in RGD positively impacts the market valuation of SSA firms. Third, our data indicate that the RGD-market valuation relationship is significantly mediated by the quality of NGBs and institutional investors.

Drawing on the results, the study contributes to extending the comparative corporate governance literature (see Aguilera and Crespi-Cladera, 2016; Aguilera and CuervoCazurra, 2004; Aguilera and

Jackson, 2010; Areneke et al., 2022b) and the works of Ntim et al. (2013) & Mokhtar and Mellett (2013) who examined the determinants of corporate risk disclosure in South Africa and Egypt respectively. However, this study differs from and extends the literature by showing comparatively the level of RGD in emerging African markets. Specifically, the study shows significant firm and country-level variation in the disclosure of risk governance in emerging markets. Using South Africa and Nigeria as examples, the study indicates that country-level differences in RGD are explained by the maturation of governance practices across countries. Particularly, RGD is higher in South Africa than in Nigeria due to the maturation of governance disclosures from the introduction of King I in 1994 through to King III. Thus, the development of CG institutions in South Africa over time has made firms in the country accustomed to disclosure, which makes them disclose more compared to Nigeria, which developed its first CG code in 2003. Second, unlike the limited yet inconclusive RGD-firm market valuation research (e.g. Elshandidy et al., 2022; Elshandidy and Neri, 2015; Haj-Salem et al., 2020; P'erignon and Smith, 2010), this study develops a conceptual framework that shows the direct and indirect effect of RGD on market performance. Specifically, the study shows that while RGD affects market value, institutional investment and the quality of national corporate governance bundles are significant mediators of this relationship. Lastly, we contend that, as stakeholders (governments, regulators, investors and other stakeholders) are increasingly expecting firms to provide disclosure on risk governance, we provide practitioner evidence that such disclosures improve firm market valuation as this may reduce information asymmetry, agency cost and institutional void, which are prevalent in emerging economies.

The rest of the paper is organised as follows: the next section discusses the context of our research (Nigeria and South Africa). This is followed by a critique of relevant literature upon which hypotheses are developed. The fourth section discusses the paper's research methodology and approach to data analysis. The fifth section presents the research results, and the final section summarises and concludes.

2 Institutional Contexts: Nigeria and South Africa

This research explores the value relevance of firm-level RGD in Nigeria and South Africa, the two biggest economies in SSA. South Africa's capital market is the most developed in SSA, with the most listed firms. It is also the economic powerhouse of the Southern

African economic market. On its part, Nigeria is the most populous country in Africa, with the highest number of listed companies in West Africa as well as the economic hub of the West African region. Nigeria has the largest economy in Africa, with an estimated nominal GDP of $432.2 billion, exceeding South Africa's $337.6 billion as of 2020. Comparing the GDP with the total GDP of $1.672 trillion for sub-Saharan Africa, Nigeria's GDP represents 25%, whereas South Africa accounts for 20%. Collectively, both countries generate 45% of SSA's GDP. While Nigeria's economy is the largest in Africa, South Africa is considered the' financial hub', given its capacity to attract the highest foreign direct investments (FDI) inflow. For example, in 2021, FDI inflow to South Africa relative to FDI inflow to Africa was 42% ($42 billion), dwarfing Nigeria's 4.8% ($5.6 billion) by approximately 37% (UNCTAD, 2022). Institutional investments is growing in both countries, but South Africa has one of the highest levels of this type of investment (Kilincarslan et al., 2020). According to the study by Kilincarslan et al. (2020), between 2010-2017, the average institution investment in South Africa stood at 60.06% compared to just 13.5% in Nigeria. This shows some varying degrees of institutional investment across both countries[1].

Furthermore, given the growing trend of CG development across the globe, both countries have developed CG codes, which have provisions for risk governance which are peculiar to each country. The CG codes are influenced by international CG benchmarks, especially the UK CG codes, though both countries have developed their CG codes at different times. For example, post-apartheid and in an effort to gain access and recognition in the global market, SA developed their CG code in the form of King I of 1994, which drew inspiration extensively from the provisions of the UK Cadbury Report of 1992, centred on a shareholder-focused CG regime. This was followed by King II (2002) and King III (2009), with the latter offering more guidelines to enhance risk governance (Matsane et al., 2022; Ntim, 2016; Ntim et al., 2012). Nigeria, on the other hand, had its first CG Code in 2003 (Adegbite, 2012; Areneke et al., 2022a, 2023; Areneke and Kimani, 2019), a year after South Africa's King II. However, Nigeria's second CG Code came into effect in 2011, with some of its provisions similar to those of the King II CG but differing significantly from the King III CG Code.

We contend that, owing to differences and some similarities in the governance architecture of Nigeria and South Africa, both countries may exhibit variations in organisational level RGD and represent

[1] However, as we will show later in descriptive statistics, there is still a high variation in institutional investment, but both countries have at least 50% investment by institutional investors

interesting cases in SSA that deserve close examination to inform theory and practice. Specifically, the King III of SA contains nine risk governance provisions compared to six in the Nigerian 2011 CG code (for brevity, a detailed discussion of the provisions in each country is provided in the methodology section). We contend these variations may trigger similar or inconsistent effects on firm valuation across both countries. More so, the two countries have developed their risk governance requirements as part of CG codes and have adapted these provisions to meet local and socio-economic risk profiles of doing business in their respective countries. Furthermore, while South Africa has developed risk governance institutions and guidelines that are perhaps more mature in the African context (since 1992), Nigeria offers an environment where risk governance institutions are still evolving. Hence, the differences in the evolution of risk governance institutions and reporting between the two countries provide an attractive setting to examine and compare firm-level RGD in SSA and whether investors value such disclosures. Thus, we anticipate firms in both countries may show divergences (congruence) in the level of maturity and selection of RGDs and, therefore, are peculiar and interesting context in SSA to examine and compare whether investors value RGD and if other governance factors (e.g. institutional investment and compliance with country-level CG codes) may mediate this relationship.

3 Review of related literature

3.1 Review of prior research on risk governance disclosure and market value

Disclosing information concerning public firms is fundamental to good CG practices (Elshandidy and Neri, 2015; Haj-Salem et al., 2020). This is because public firms are managed by individuals separate from their owners, mainly outside investors, which presents information asymmetry concerns. Notwithstanding, the literature has suggested various ways concerning how firm owners can minimise the information asymmetry problem, including hiring an independent board of directors and incurring agency costs, such as external auditors' fees (Acik et al., 2022; Aguilera et al., 2012), among others. Scholarly evidence also indicates that the disclosure of corporate information and the subsequent improvement in transparency of firm activities has a positive impact on corporate value (Biondi, 2011; Elshandidy et al., 2022; Plumlee et al., 2015). However, the majority of studies investigating corporate disclosures, either voluntary or mandatory, or both, have mainly focussed on social disclosures (i.e. carbon

emissions/environmental, pandemic diseases etc.) (see Matsumura et al., 2014; Ntim, 2016; Plumlee et al., 2015); executive compensation (Garc´ıa-Castro et al., 2013) and board attributes (Ben Othman, 2011).

However, firms operate in dynamic and unpredictable contexts where they are confronted by numerous risks that constrain their opportunities and threaten their continued existence (Hiebl, 2019). However, few studies have investigated the impact of corporate risk governance disclosures on firm market valuation. It is also worth noting that much of this literature focuses on developed economies, while studies on Africa and other emerging economies contexts remain scant (Elshandidy et al., 2022; Khalil and Maghraby, 2017). Some studies have demonstrated that the disclosure of risks faced by firms is positively associated with firm value (Elshandidy et al., 2022; Hoyt and Liebenberg, 2011; Kim and Yasuda, 2018). Using the case of publicly traded insurers in the US, Hoyt and Liebenberg (2011) found that firms which disclose more risk governance information have higher market value, exhibit financial stability and have a limited likelihood of earnings volatility, compared with firms which disclose less risk information. Kim and Yasuda (2018) also demonstrate that risk management disclosure by Japanese firms correlates positively with firm value. They also find that mandatory risk management disclosure requirements correlate negatively with overall firm risk, adding that investors favour firms which are less risk-opaque, thus able to access inexpensive capital.

Conversely, a stream of research has reported a negative relationship between RGD and firm valuation. For instance, Lim and Tan (2007) analysed the impact of RGDs on 81 non-financial firms. They note that while more RGDs were instructive for the market, investors regarded firms with high-risk disclosures as potentially riskier than those without. The former's stock earnings were also volatile. P'erignon and Smith (2010) examined the impact of risk disclosure by US international banks over ten years. They reported an insignificant relationship between bank performance and risk disclosure despite a continuous increase in information communicated by firms over the observed period. This result is also supported by the recent studies of Elshandidy and Neri (2015) and Haj-Salem et al. (2020).

3.2 Hypothesis development

The preceding discussion suggests that evidence on the value relevance of corporate RGD is mixed. More so, despite the recent traction in risk governance disclosure studies as highlighted above, no existing research, to the best of our knowledge, has examined the relationship between corporate RGD and firm value comparatively in the SSA region. We contend that the prevalent socio-political and business

environments in SSA provide an appealing context to compare firm-level RGD behaviour and examine whether these behaviours vis-a`-vis recommended practices have similar impacts on firm valuation across SSA countries. We opine that the institutional fragilities of SSA economies expose firms in this region to greater risk than Western firms. SSA countries are noted for their weak institutional environments characterised by rampant corruption that demotivates investors from investing in these economies (Areneke et al., 2022a; Elshandidy et al., 2022). For example, managers of firms in Nigeria have been reported to engage in unethical practices such as corruption, elitism, and political affiliations (Areneke et al., 2022a; Ashiru et al., 2023; Nakpodia et al., 2018), which compromises their ability to engage in transparent disclosure of the firm's activities. However, prior research (e.g. Ahmed and Anifowose, 2024; Barkemeyer et al., 2018) has shown that increased disclosure of firm practices reduces practices such as corruption while correcting for weak enforcement of laws and institutional void in SSA. Similarly, research has shown that investors value disclosures (e.g. Aboud and Diab, 2018; Chijoke-Mgbame et al., 2020) in SSA.

Drawing from these antecedents, we argue that in SSA, investors may interpret firms' risk disclosure as signalling a commitment to reduce information asymmetry and corruption while improving transparency. This may indicate to investors that the firm is less risky, which could translate to high market valuations for firms with high RGD compared to those with low disclosure. More so, SSA markets exhibit a high degree of risk due to complex and uncertain business environments compared with more developed markets (Areneke et al., 2022a; Ngobo and Fouda, 2012; Zhang et al., 2016). Therefore, we contend that an increase in the RGD of firms in SSA is crucial in attracting and retaining both local and foreign investment. This is because these disclosures will signal a commitment to addressing identified risks, which will reduce agency costs and cost of capital. Therefore, high RGD can assist in limiting weak enforcement, corruption and other unethical practices prevalent in SSA, which will enhance investors' confidence and enthusiasm to invest in SSA firms. Consequently, we investigate the following hypothesis:

Hypothesis 1 (H1): *Ceteris paribus, there is a positive relationship between RGD and firm market valuation in SSA.*

Furthermore, we contend that the relationship between RGD and market valuation is mediated by institutional investors. As noted earlier, most of the ownership of firms in SSA is in the form of institutional investment (Areneke et al., 2022a; Hearn and Piesse, 2013). This suggests that institutional

investors are likely to be instrumental in the valuation of firms in SSA. Therefore, in the milieu of weak governance enforcement, intentional investors may be attracted to firms that disclose risk governance information. Consequently, they may invest more in such firms than those not disclosing their risk management/governance. However, some empirical evidence from other contexts shows that institutional ownership may constrain the disclosure of information, as has been reported in China (Tan et al., 2017), Egypt (Mokhtar and Mellett, 2013), and Western countries (Ajinkya et al., 2005; Elshandidy and Neri, 2015; Elzahar and Hussainey, 2012). These results suggest that institutional investors may not value disclosure of risk governance as it reduces competitive edge. Specifically, institutional investors may interpret risk governance disclosures as exposing the firms' vulnerabilities to competitors and, therefore, may not value such firms.

However, institutional investors have been reported to highly value disclosures in western economies (Baloria et al., 2019; Bird and Karolyi, 2016; Boone and White, 2015; Flammer et al., 2021; Garc'ıa-Sa'nchez et al., 2020) and also in SSA (Areneke et al., 2022a). This suggests institutional investors may value risk-governance information disclosures as a way the firm is demonstrating a commitment to transparency and reducing agency costs, which may enhance firm market valuation. Furthermore, we argue that in the context of SSA, which has weak governance enforcement and poor regulatory oversight, high RGD is likely to attract institutional investors. More so, disclosure of risk governance by firm managers may reduce the costs of information gathering by institutional investors, which enhances their ability to examine managerial strategies, which lowers monitoring costs and improves access to cheaper capital (Ali et al., 2024; Boone and White, 2015; Cao et al., 2020). Therefore, institutional investors may value firms with high RGD, which reduces the cost of capital and improves market valuation. We, therefore, contend institutional shareholding will mediate the risk governance disclosure-firm valuation relationship. Accordingly, we formulate the following hypothesis:

Hypothesis 2 (H2): *Ceteris paribus, institutional shareholding mediates the relationship between RGD and firm market valuation.*

Consistent with other recent cross-country studies (see Aguilera et al., 2012; Aslan and Kumar, 2014; Schiehll et al., 2014), we argue that RGD levels within each country, i.e. Nigeria and South Africa, are influenced by individual country governance bundles/mechanisms. According to Aguilera et al. (2012) and Areneke and Kimani (2019), firm CG practices evolve from a blend of factors, including legislation

and quality of law enforcement, state of capital market development, specific provisions of individual country CG codes, and the subsisting model of governance (i.e. shareholder-centric, or stakeholder-based, or a hybrid of both). Aguilera et al. (2012) refer to such factors as governance bundles. Following this, we operationalise NGB as firms' adoption of a set of recommended governance practices stipulated in country-level CG codes.

As observed in prior research, firms operating within the same market may exhibit varying CG practices, where some" firms might choose to fully endorse a practice [while others] simply seek to comply with the minimum requirements without truly internalising the governance practice" (Aguilera et al., 2012, p. 380). Thus, we assume that risk governance information disclosure improves compliance with the CG codes (NGB) within Nigeria and South Africa. Consequently, we seek to understand whether NGB at the firm level mediates the firm RGDs-market valuation nexus.

As the study by Kim and Ozdemir (2014) showed, governance environments and institutional backgrounds mediate how corporate boards are structured and their functions defined. Drawing on this, we contend that because the risk increases uncertainty, especially in weak institutional environments, the disclosure of risk management, which is embedded as part of CG codes, will enhance firms' overall governance disclosure quality. Hence, firms with high RGD will tend to comply more with the overall provisions of the CG codes in each country. Specifically, because risk faced by firms is one of the key aspects of corporate governance codes in SSA and is very important for investors in a context of weak regulatory oversight and enforcement, we contend that in disclosing the management of risk, firms are increasing their compliance to CG provisions which have been reported to improve market valuation. Specifically, prior research (Akhigbe and Martin, 2006; Ntim et al., 2012; Tariq and Abbas, 2013; Ullah et al., 2021) show investors highly value firms with higher NGB and governance compliance. Hence, we expect that NGB mediates the risk disclosure-firm valuation association. Thus, we hypothesise that:

Hypothesis 3 (H3): *Ceteris paribus, national governance bundles mediate the relationship between RGD and firm market valuation.*

The discussed association between risk governance disclosure and firm market valuation and the mediating role of institutional investors and national governance bundles is conceptualised in Figure 1 below.

[Insert Figure 1 here]

From the conceptualisation in Figure 1, risk governance disclosure has a direct impact on firm market valuation represented by H1. In addition, this association is mediated (indirectly) by institutional investment (H2) and NGB (H3).

4 Methodology

4.1 Data collection and sample

We manually collected data for independent and dependent variables from the annual reports of the sampled listed firms from company websites and www.african-markets.com. The data for the control variables were sourced from Thomson Reuters DataStream and triangulated with data from the annual report. Our sample comprises 100 listed firms from South Africa and 80 from Nigeria. Our sample firms were selected from different industry groups to ensure representativeness. Specifically, we started by grouping firms according to industry groups as reported in the respective stock exchanges (Nigeria Stock Exchange (NSE) and the Johannesburg Stock Exchange (JSE)). Next, we searched for annual reports from the respective stock exchange fillings, the company websites and Africanmarket.com. Based on the available annual report for the period of 5 years for each company, we applied stratified quota sampling to ensure representation of each industry in each country. Therefore, our sampling procedure ensured representativeness and limited sample bias. This procedure ensured that listed firms from all major industries, as defined in the respective stock markets, were sampled. Our sample generated a mix of large and small firms to enable the generalisation of results and reduce sample bias. We summarise our sample selection procedure in each country in Table 1. Our total sample size accounts for 45% of the listed firms in Nigeria and 25% in South Africa, which were actively trading in the respective stock exchanges as of 31/12/2017.

[Insert Table 1 here]

The data for South Africa covered the period 2012-2016, while that for Nigeria was from 2013 to 2017 inclusive. Our sample included only firms with complete data for the five years. This generated 500 and

400 firm years (900 firm-year) observations for South Africa and Nigeria, respectively. More so, as the RGD requirements in South Africa King III and Nigeria CG Code were introduced in 2009 and 2011, respectively, we collected data for the post-implementation period. We limit the last year of sampling to 2016 in South Africa and 2017 in Nigeria because South Africa introduced a new CG code (King 4) in November 2016 to become effective in 2017, with Nigeria also introducing a new CG code in 2018. Therefore, our selection of the time period ensured that it falls during the implementation of King III in South Africa and the SEC 2011 corporate governance code in Nigeria. Therefore, the selection of different periods in the different countries (from 2012-2016 in South Africa and 2013-2017 in Nigeria) is due to the development of RGDs in respective CG codes in different years and the availability of annual reports for each company over a 5-year period[2].

Furthermore, our choice of a five-year period is suitable for conducting a dynamic panel data analysis. Besides, the period is sufficient for statistical and robustness analyses using dynamic system GMM for shorter panels like ours. Also, our choice of five-year observations with both cross-sectorial and time series individualities ascertains how our hypothesized sectorial firm risks governance disclosures-firm market valuation association is persistent over time. Finally, our choice of a 5-year period is consistent with prior studies (e.g. Areneke et al., 2022a; Flannery and Hankins, 2013; Ntim et al., 2012).

Contrary to prior CG studies in SSA, which have relied on financial firms (e.g. Akinkoye and Olasanmi, 2014) or non-financial firms (e.g. Ntim et al., 2013, 2012) because financial firms are more regulated, our sample includes both financial and non-financial firms for several reasons. First, financial firms constitute more than a quarter of firms in South Africa and Nigeria. Therefore, financial firms form a significant part of listed corporate entities in both countries. Second, financial firms are noted to have been involved in poor CG practices, including corruption, money laundry and elitism in the past in both countries (see Hope, 2020; Ogbechie and Koufopoulos, 2010; Ragazou et al., 2022, for a detailed discussion). Therefore, financial firms represent an interesting group of firms to also examine their risk governance practices. Furthermore, our initial statistical test of firm-level individualities between financial versus non-financial firms shows no significant mean differences. For example, industrial firms scored

[2] For example, most of the annual reports were available for Nigerian firms for the 5 years post-2013

higher on NGB and RGD than financial firms. Finally, our exclusion of financial firms from the sample did not show any qualitative changes in the results[3].

4.2 Measurement of variables

4.2.1 Independent variables

Our independent variable for the study is RGD. Data for RGD were generated through a content analysis of annual reports to confirm if a firm complies with RGD requirements of the King III CG Code in South Africa and the SEC 2011 CG Code in Nigeria. The SEC 2011 CG Code contains 75 governance provisions that firms are expected to comply with or explain their non-compliance. Within these 75 provisions, six represent firm disclosure on risk governance. These risk governance disclosures include (i) the establishment of the risk management committee, (ii) whether the risk management committee meetings are attended by the CEO, internal audit member and at least one executive director, (iii) whether the risk management committee meetings are disclosed, (iv) whether both actual and potential future systematic and non-systematic risks are disclosed, (v) board disclosure on the effectiveness of the systems and processes of risk management, and (vi) disclosure on risk management policies and practices. King III in South Africa contains 84 governance provisions, of which nine cover risk governance requirements. Firms are expected to apply these provisions or explain reasons for non-application. The King III risk governance provisions include disclosure on (i) the establishment of the risk management committee, (ii) whether risk management committee members' meetings attendance is disclosed, (iii) risk management committee is composed of a minimum of three members, (iv) risk management committee is made up of both executive and NEDs, (v) whether risk governance committee meets at least twice a year (vi) whether both actual and potential future systematic and non-systematic risks are disclosed, (vii) level of effectiveness of the systems and processes of risk management (viii) disclosure on existing risk internal control systems (including internal audit), and (ix) disclosure on the management of future firm risks, e.g., environmental risk.

[3] For brevity, the untabulated results are presented in the robustness section

Consistent with recent research on disclosure practices (Areneke et al., 2022a; Areneke and Kimani, 2019; Weber, 2017), we employed a binary coding scheme. This involves awarding a score of' 1' if a firm discloses compliance/application of each of the risk governance provisions in their annual report, otherwise, zero ('0'). The total for South Africa and Nigeria will range from 0 to 9 and 0 to 6, respectively. Specifically, in South Africa, we measure RGD by awarding" 1" if a firm applies each of the nine Kings III RGD, otherwise "0". As such, scaled to percentage, in South Africa, RGD ranges from 0% (no application) to 100% (full application). Similarly, in Nigeria, based on the six-risk governance provisions of the SEC 2011, firm-level RGD ranges from 0% (non-compliance) to 100% (full compliance).

4.2.2 Dependent and mediating variables

The dependent variable in our study is the popularly-used market valuation proxy Tobins Q (Q-ratio). We measure Q-ratio as the ratio of a firm's market value (i.e., market value of its outstanding stock and debt) to its replacement value of assets (book value). For our mediating variables, national governance bundle is a composition of 75 and 84 CG provisions required by Nigeria's SEC 2011 CG Code and South Africa's King III Code respectively. However, because RGD guidelines are part of the CG provisions in each country we excluded them in computing the NGB to avoid double counting and possible multicollinearity issues. Specifically, we measure compliance with the Nigeria SEC (South Africa) governance regulations from" 0" (no compliance) up to 69 (75) (full compliance), respectively. Hence, a firm's NGB across firm years is scaled to percentage and ranges from 0% to 100%. Our second mediating proxy is institutional ownership (INS). We measure this as the percentage of firms' equity owned by institutional stockholders.

4.2.3 Control variables

We observe that, ex-ante, firm market valuation can be impacted by factors other than RGD, NGB and institutional ownership. To reduce the problem of omitted variable bias (which may generate spurious associations), we control for several variables that can affect firm market valuation. To begin with, CG scholarship has indicated an association between firm-level internal governance mechanisms and firm financial performance. We control for such firm-level internal CG structures using director ownership, board independence (percentage of non-executive directors "NED") and board size. Firm size is postulated to impact firm performance (Est'elyi and Nisar, 2016; Hearn, 2015). We, therefore, controlled for firm size using sales growth (SG), country-level stock market size rating (FS) and log of a firm's total assets (LogTA). Firm capital structure is hypothesised as a mechanism that reduces agency cost (Tunyi et al.,

2023) and can, therefore, affect firm market valuation. Hence, we control for firm capital structure (GEAR). We further control for audit firm size (AFS) as large and international auditors such as Deloitte Touche Tohmatsu, PricewaterhouseCoopers (PwC), KPMG, and Ernst and Young (EY) have been theorised to provide better scrutiny of firm annual reports which affects firm valuation. Cross-listed (DL) firms are deemed to provide more transparent information because they are subject to high scrutiny in different markets (Areneke and Kimani, 2019). This may attract investors and improve market valuation. Hence, we control for cross-listing (DUALIST). Finally, we use six industry dummies (INDUS) and five-year dummies to control for industry and firm-year (YD) effects. Our variable measurements are reported in Table 2.

[Insert Table 2 here]

4.2.4 Statistical analyses

Reviews of governance studies suggest that endogeneity in OLS estimations can lead to spurious results (e.g. Areneke et al., 2023; Barros et al., 2013; Wintoki et al., 2012). Three sources of endogeneity have been identified in finance and accounting scholarship: unobserved heterogeneity, simultaneity and dynamic endogeneity. As such, scholars have cautioned against using OLS estimations to arrive at research findings without adequately controlling for endogeneity. Regarding our research, critical estimation questions such as: does an increase and or decrease in firm market value coerce firms to increase RGDs? What if the changes in RGD result from some unobserved factors that affect firm market valuation? We contend that our findings may be spurious if these questions are left unanswered within our estimation. As such, in addition to the traditional OLS estimation, for our main estimation method, we conducted a Blundell and Bond (1998) dynamic panel GMM regression, which has been reported (see Flannery and Hankins, 2013) as more robust to control for unobserved heterogeneity, dynamic endogeneity, simultaneity and second order serial correlation. Besides, dynamic system GMM is more suited for datasets of shorter periods like ours (see Flannery and Hankins, 2013, for a detailed review of estimation methods for specific panel datasets). The dynamic panel GMM equations are stated as follows.

$$Q_{it} = \beta_0 + \beta_1 Q_{it-1} + \beta_2 RGD_{it} + \beta_3 INS_{it} + \beta_4 NGB_{it} + \beta_5 CONTROLS_{it} + \epsilon_{it} \quad (1)$$

$$\Delta Q_{it} = \beta_0 + \beta_1 \Delta Q_{it-1} + \beta_2 \Delta RGD_{it} + \beta_3 \Delta INS_{i\,t} + \beta_4 \Delta NGD_{it} + \beta_5 \Delta CONTROLS_{it} + \Delta\epsilon_{it} \quad (2)$$

We define L as a one-year lag operator; ΔQ is an $(N - I) \times 1$ trajectory/vector of the differenced firm market value variable across N observations and I firms. β_1 is a 1×1 scalar of the lag time coefficient for differenced Q-ratio, ΔL.Q, across N observations. ΔRGD is the $(\mathrm{N} - \mathrm{I}) \times H$ matrix of the H differenced risk governance disclosure variable (RGD) across N observations and I firm. β_2 is an $H \times 1$ vector of coefficients for the H differenced RGD. Similarly, ΔINS and ΔNGB are an $(N - I) \times Q$ matrix of the Q differenced firm level mediating variables- institutional shareholding (ISH) and national governance bundles (NGB), respectively. ΔCONTROLS are an $(N - I) \times Q$ matrix of the Q differenced firm level eleven (11) extraneous variables across N observations for I firms. β_3, β_4, β_5 are the $^{Q} \times 1$ vector of coefficients for the Q differenced firm level mediating variables and control variables, respectively. Finally, ϵ_{it} is an $(N - I) \times 1$ vector of the error terms for I firms across N observations.

The first system of equations (GMM deference equations (1)) examines the impact of the lag market valuation variable (Q-ratio), the independent variable (RGD) and the eleven control variables. The dynamic panel GMM equation 2 evaluates the effect of lag Q-ratio changes in addition to changes in RGD and changes in mediating and control variables estimated on changes in Q-ratio [4]. The results of the dynamic model (change model) are reported as our main results in Table 5.

5 Empirical results

5.1 Descriptive statistics & bivariate correlations

Tables 3 and 4 present the descriptive and bivariate correlation results for South Africa and Nigeria, respectively. Specifically, the mean and standard deviation results are presented in Columns 2 and 3. Bivariate correlations are reported in columns 4 to 16. Several interesting results emerge within the descriptive results. First, the standard deviation for RGD suggests a high disparity between firms across both countries, but this is twice as much in Nigeria (32.26%) than in South Africa (15.06%). However, both countries show a mean RGD above 80%, but South African firms disclose more (88.11%) relative to Nigerian firms (83.71%). This suggests that firm in both countries are increasing their RGD practices.

[4] For a detailed explanation of the GMM model, see Blundell and Bond (1998, 2000); Flannery and Hankins (2013)

Similarly, the quality of NGB is higher in South Africa (86.05%) than in Nigeria (72.71%). This difference may be because South African firms are accustomed to improving the quality of national governance practices from the introduction of King I in 1994 to King III in 2009. On the other hand, Nigerian firms are getting acquainted with improving the quality of NGB, given that the first CG Code was released in 2003. Therefore, we contend that differences in the maturation of governance institutions across the respective countries explain the significant variation of RGD and the quality of national governance practices. Interestingly, RGD is higher than the quality of NGB (86.05%) in South Africa and Nigeria (72.71%). This suggests that in both countries, firms disclose more of their risk governance practices compared to the quality of national governance practices.

[Insert Table 3 here]

[Insert Table 4 here]

Similarly, institutional investment is above 50% in both countries but higher in South Africa (62.56%) compared with 52.54% in Nigeria. This is unsurprising given that emerging economies are typically noted to attract high levels of institutional investments (Areneke et al., 2022a; Hearn and Piesse, 2013; Kilincarslan et al., 2020; Ntim et al., 2012). This a priori indicates that institutional investment could be a main driver of the market valuation of firms in these countries. The Q-ratio also shows considerable disparity across country and firm levels. Other variables (controls) also show high variabilities across country and firm levels (for brevity, we do not discuss this, but it can be seen in Tables 3 and 4). These disparities further justify our choice of sample and enhance the generalisation of results.

For robustness reasons, we employed Pearson parametric and Spearman non-parametric correlation estimations to test for multicollinearity. The results are presented in Columns 4 to 16 of Tables 3 and 4. Reading from the tables, the direction and signs of the coefficients and magnitude for parametric and non-parametric correlations are generally similar. This shows the absence of serious non-normality problems. Bivariate correlations range from low to moderate, with the maximum across both countries at 0.690, suggesting that our estimation is not plagued by multicollinearity concerns. Nevertheless, for robustness, we inspect Cooks Disturbance Statistics, Variance Inflation Factors (VIF), studentized residuals, and tolerance statistics (we do not report this for brevity reasons but are available upon request). In addition, we use Durbin-Watson statistics to test for homoscedasticity in addition to testing for linearity and

normality (we do not report this for brevity reasons but are available upon request). Our test statistics indicate that there are no violations of the OLS assumptions. For instance, the highest VIF from OLS regression across both countries is less than 7.0, which is below the critical value of 10. Likewise, our tolerance statistics ranged from 0.326 to 0.625. At a glance, the correlation results show a positive association between RGD and Q-ratio across both countries, which a priori suggests they have an association.

5.2 Regression results

We report multivariate regression estimates in Table 5. Columns 2 to 5 show the results based on our main estimation method dynamic panel GMM, while Columns 6 to 9 show the OLS estimation. Each estimation method has two sub-models. Specifically, Model 1 examines the impact of RGD and the 11 control variables on Q-ratio. The second model (Model 2) examines the introduction of mediating variables, i.e., NGB and institutional ownership, to Model 1. Columns 2 and 3 show the results of Models 1 & 2 in South Africa for dynamic GMM. While columns 4& 5 show the results for GMM estimation for Nigeria. On the other hand, Columns 6 and 7 show the results for OLS estimations for
South Africa for both models. Whereas Columns 8 and 9 report the results of Models 1 & 2 for OLS estimations for Nigeria.

[Insert Table 5 here]

To begin with, the first hypothesis proposes that RGD affects market value. As hypothesized from Model 1, RGD positively and significantly impacts the Q-ratio across all multivariate estimations. Specifically, the coefficients of RGD in South Africa (Nigeria) are significant for our main estimation method GMM with β= 0.010, p = 0.00 (β = 0.004, p = 0.05). These results are consistent with the OLS results in columns 5 & 7. These findings also have economic significance. Specifically, a one standard deviation change (increase) in RGD by firms in South Africa (Nigeria) leads to 0.15% (15.06 x 0.010) & 0.13% (32.26 x 0.004) improvement (increase) in market value, respectively. These results support Hypothesis 1 and the findings of Elshandidy et al. (2022), Hoyt and Liebenberg (2011), and Kim and Yasuda (2018) but contradict the negative and or no effect reported by Elshandidy and Neri (2015); Haj-Salem et al. (2020); P'erignon and Smith (2010). The findings suggest that in a weak governance and enforcement environment

prevailing in emerging markets, firms use their governance of risk disclosure to signal transparency to investors which reduces agency cost and increases their market value.

Recall, we further hypothesised that the effect of RGD on market value is likely to be mediated[5] by other governance mechanisms - NGBs and institutional shareholding (Hypothesis 2 & 3 respectively)). As can be seen in columns 3 & 5 (GMM estimation for South Africa and Nigeria respectively) with the addition of institutional shareholding and NGBs as mediating variables (Model 2), there is an insignificant positive impact of RGD on Q-ratio. These results are also consistent with the OLS estimations in both countries (columns 7 & 9). These results support Hypothesis 2 and 3 that institutional investment and NGBs mediate the relationship between RGD and market value. Implying that firm-level RGD improves market valuation as reported in Hypothesis 1, but this association is value relevant through institutional investment (Hypothesis 2) & firm adoption of recommended national governance guidelines (Hypothesis 3).

5.3 Robustness and sensitivity checks

As discussed earlier, we employed a dynamic panel GMM estimation to eliminate the endogeneity problem in our findings. Hitherto, we have provided robust and consistent significant RGD-market valuation association across econometric models. The consistent findings suggest our three-research hypotheses are supported irrespective of the estimation method. We, therefore, contend that our reported empirical results are rigorous and robust to any possible simultaneity, unobserved heterogeneity and/or dynamic endogeneity that may have affected our results.

We further confirm the robustness of our analysis with a test of second-order serial correlation AR (2) within the GMM model, as shown in Table 5. Our results for AR (2) indicate the absence of any serial correlation in our estimations. Hence, our system of equations in the dynamic panel GMM estimation includes sufficient lag instruments to control for any possible dynamic individualities in the empirical results. Hansen (J) test of over-identification across both countries in the GMM estimations indicates that the internally generated instruments in our estimations are valid and none of the equations is

[5] Generally, if mediation exist, the introduction of institutional ownership & NGBs should lead to the significant effect of RGD on market value completely (full mediation) or partially (partial mediation) disappearing.

overidentified. Finally, Difference-in-Hansen tests of exogeneity values suggest that the instruments within our dynamic GMM equation levels are exogenous.

Finally, because financial[6] firms constituted about 25% of our sampled firms in both countries, we excluded these firms in a further analysis (untabulated results not reported for brevity), our results remained qualitatively unchanged, suggesting that the inclusion of these firms does not affect the findings.

6 Discussion

Departing from the limited and inconclusive findings on the relationship between RGD and valuation, we examine this issue in less-explored emerging markets in SSA. We note that emerging markets exhibit significant risks and inefficiencies, and their institutional environments are also complex and uncertain compared with developed markets, where the majority of research has focused. This study addresses this lacuna by comparatively examining the impact of corporate RGD on market valuation in SSA using listed firms from Nigeria and South Africa. In addition, given the peculiarity of the context and the inconclusive empirical findings linking RGD to market valuation, we further examine whether other CG mechanisms mediate this relationship in milieus marred by weak enforcement of laws which perpetuates unethical practices such as corruption elitism, political affiliation in the management of firms. Drawing on the research findings, the study provides several contributions to the literature.

First, we show that there is an increasing trend in RGD amongst SSA firms. However, there is a high firm and country-level disparity in RGD. Country-level disparities are explained by the maturation of governance practices across countries. The results indicate that South African firms' RGD is higher than their Nigerian counterparts. This is due to the maturation of governance disclosures from the introduction of King I in 1994 to King III. Second, irrespective of the maturity/longevity of developing CG codes, increased RGD is associated with improved market valuation of firms across countries. Third, the RGD-market valuation association is significantly mediated by institutional investment and the quality of corporate governance practices across countries.

[6] Financial firms have been noted to have stricter scrutiny and regulation (Ntim et al., 2013; Tunyi et al., 2024; Tutu et al., 2023)

6.1 Policy and managerial implications

As stakeholders (governments, regulators, investors and other stakeholders) increasingly expect firms to disclose risk governance, we provide practitioners/managers evidence to continue providing transparent information on their risk management practices as this attracts investors by reducing information asymmetry and agency cost, which translates to enhanced market valuation. The study provides policymakers and CG regulators in emerging markets with incentives to continuously revise risk governance provisions in CG codes to reflect country-level individualities, as this is highly valued by investors.

6.2 Limitations

Our research has certain caveats, suggesting directions for future research. First, the study sample consists of firms from the two largest SSA countries, which can affect cross-generalisation to smaller SSA countries that may not have the capabilities that Nigeria and South Africa may possess. Future research can replicate and enhance our findings through a cross-country comparative study that includes other small and large SSA countries. In addition, because for comparative purposes, the study used risk governance provisions in the CG codes of the respective sampled countries (not generic provisions that cut across countries), future studies can extend this study by developing an index of risk governance provisions that cut across many SSA and examine the effect on market value.

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