Signalling Through Governance: Can Governance Reforms in Egypt Attract Foreign Capital by Reducing Perceived Information Risk?

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Abstract

Attracting foreign capital is a persistent challenge for emerging markets plagued by perceptions of opacity and high information risk. This study investigates whether corporate governance (CG) reforms in Egypt function as a credible signal to international investors by reducing firm-specific information asymmetry. We theorize a mediation model where governance quality signals a commitment to transparency, thereby lowering perceived information risk (proxied by bid-ask spreads), which in turn attracts foreign institutional ownership. Using a sample of 326 firm-year observations from non-financial EGX 100 companies (2014-2018), we employ a two-stage least squares (2SLS) approach with an instrumental variable to establish causality, followed by path analysis. Results confirm that strong governance causally reduces information asymmetry. Crucially, path analysis reveals a significant indirect effect: governance attracts foreign capital almost entirely through this reduction in information asymmetry, supporting a full mediation model. Furthermore, this signaling effect is strongest for firms in opaque sectors and those with no prior foreign ownership, where the information deficit is greatest. The discussion frames these findings within signaling theory, positing governance as a strategic tool for capital attraction. The study implies that for firms, governance is an investment in reputation, and for regulators, it is a validated strategy for market development.

Keywords: Corporate governance, signaling theory, foreign investment, information asymmetry, emerging markets

1. Introduction

A central challenge for emerging market economies is attracting stable, long-term foreign investment to fuel economic growth. Foreign capital, particularly institutional investment, is highly sensitive to information risk—the uncertainty stemming from opaque disclosure practices, weak corporate governance, and the potential for insider expropriation (Almutairi et al., 2025; Hail & Leuz, 2006; Leuz, Nanda, & Wysocki, 2003). This creates a significant barrier for nations like Egypt, whose stock market has historically been characterized as secretive and dominated by retail investors, with voluntary disclosure levels remaining limited (Leuz & Oberholzer-Gee, 2006). While Egypt has undertaken successive waves of corporate governance (CG) reform, most recently with the 2016 Corporate Governance Code, the direct, causal pathway from these internal governance improvements to tangible increases in foreign capital inflows remains empirically underexplored (Houcine et al., 2022; Shleifer & Vishny, 1997; Al-Waeli et al., 2020). Prior research has established that strong governance and transparency can improve domestic firm outcomes, such as investment efficiency (Menshawy, Basiruddin, Mohd-Zamil, & Hussainey, 2023; Biddle, Hilary, & Verdi, 2009), and that foreign investors prefer well-governed firms (Ilyas, Mian, & Mian, 2024). However, a critical gap exists in understanding whether governance reforms themselves function as a credible signal to the international investment community, directly reducing the perceived information risk that deters foreign capital in the first place.

This study bridges this gap by investigating CG reforms through the lens of signaling theory (Spence, 1973; Al-Waeli et al.,2022). We posit that adopting and disclosing strong governance practices—such as board independence, audit committee effectiveness, and enhanced transparency—serves as a costly and credible signal to foreign investors. These signals are costly because effective implementation requires real resource expenditure and constrains insiders' discretionary power, making them difficult for poorly managed firms to mimic convincingly (Verrecchia, 2001). By signaling a commitment to minority shareholder protection and high-quality information disclosure, firms can directly reduce the perceived information asymmetry and agency risk that foreign capital providers face. This, in turn, should lower the firm's cost of external capital and increase its attractiveness to foreign institutional investors, as predicted by finance theory (Lambert, Leuz, & Verrecchia, 2007; Myers & Majluf, 1984; Al-Waeli et al.,2021).

The Egyptian context provides a powerful setting to test this signaling hypothesis. Despite reforms, the market remains challenged by perceptions of opacity. Recent evidence confirms that firm-level information asymmetry significantly hampers investment efficiency among Egyptian companies, and that governance mechanisms can mitigate this effect (Menshawy et al., 2023; Al-Waeli,2026). Furthermore, related research in neighboring Jordan shows that corporate governance can moderate the relationship between corporate social responsibility and information asymmetry (Shahwan, 2025; Al-Waeli, 2026)**,** suggesting governance's role in shaping external perceptions. However, no study has explicitly modeled the sequence where governance quality acts as an antecedent signal that reduces information risk, which then subsequently attracts foreign investment. This study moves beyond examining governance as merely an internal control mechanism and instead theorizes it as a strategic, external-facing tool for capital attraction in an emerging market.

Therefore, this study is guided by the following research questions:

(1) Do improvements in firm-level corporate governance quality (proxied by compliance with the Egyptian CG Code, board structure, and disclosure practices) lead to a measurable reduction in firm-specific information asymmetry (proxied by bid-ask spreads) in the Egyptian market?

(2) Does this governance-induced reduction in information asymmetry subsequently mediate the relationship between corporate governance quality and increased foreign institutional ownership?

(3) Is the signaling power of corporate governance stronger for firms operating in sectors that are traditionally more opaque or for firms without prior foreign investment, where the potential to reduce information risk is greatest?

The significance of this research is threefold. Theoretically, it advances signaling theory in corporate finance by explicitly modeling and testing governance as a signal that reduces a specific, measurable cost—information risk—to attract a targeted audience: foreign capital providers. Empirically, it provides robust, causal evidence from a key MENA emerging market, contributing to the growing international literature on the real economic consequences of governance (e.g., Adwan & Ahamed, 2025; Ellili, 2022). Practically, the findings offer crucial insights for Egyptian regulators and firm managers. For regulators, it provides evidence on the tangible, capital-attraction benefits of the governance reform agenda, informing future policy. For managers of Egyptian firms, it demonstrates that investing in superior governance is not merely a compliance cost but a strategic investment that can lower the cost of capital and secure more stable financing from global investors.

2. Methods

2.1 Research Design and Empirical Strategy

This study employs a quantitative research design utilizing unbalanced panel data to investigate the causal pathway from corporate governance quality to foreign investment, mediated by a reduction in information asymmetry. The research follows a positivist paradigm and a deductive approach, testing hypotheses derived from signaling theory (Spence, 1973) and information economics (Myers & Majluf, 1984). To establish robust causal inference and address potential endogeneity concerns—such as the possibility that foreign investors themselves demand better governance—we employ a two-stage least squares (2SLS) instrumental variable approach combined with path analysis for mediation testing. This multi-method design allows us to first isolate the exogenous effect of governance on information asymmetry using an instrument, and then to model the subsequent mediated relationship with foreign ownership, aligning with best practices for testing complex causal chains in corporate finance (Chen, Hope, Li, & Wang, 2011; Ilyas, Mian, & Mian, 2024).

2.2 Sample Selection and Data Sources

The sampling frame consists of all non-financial companies listed on the EGX 100 index from 2014 to 2018. This index includes the most liquid and actively traded firms on the Egyptian Exchange, ensuring data availability and that the studied firms are economically significant and likely targets for foreign investment. The period begins after the issuance of the 2011 Corporate Governance Code and captures the early years of the updated 2016 Code, providing a dynamic setting to observe changes in governance compliance.

Following standard practice in corporate finance, financial sector firms (banks and insurance companies) are excluded due to their distinct regulatory regimes, capital structures, and disclosure requirements, which are not comparable to non-financial firms (Biddle, Hilary, & Verdi, 2009; Guedhami, Pittman, & Saffar, 2009). We further exclude firm-year observations with non-December fiscal year-ends or reporting currencies other than the Egyptian Pound (EGP) to ensure consistency in financial reporting periods and to eliminate foreign currency translation effects. The final sample is an unbalanced panel of 326 firm-year observations, representing 99 unique non-financial companies. This sample size is robust for the proposed econometric models and is consistent with focused, single-country studies in emerging markets that employ advanced instrumental variable techniques (Leuz & Oberholzer-Gee, 2006).

Table 1. Sample Distribution by Sector and Year

Sector	2014	2015	2016	2017	2018	Total Observations	Unique Firms
Basic Resources & Utilities	5	3	4	4	6	22	8
Chemicals & Oil and Gas	3	2	3	3	4	15	6
Construction and Materials	10	10	10	11	11	52	11
Food and Beverage	12	11	10	11	11	55	16
Healthcare and Pharmaceuticals	2	2	3	3	4	14	5
Industrial Goods & Services	7	8	7	6	4	32	8
Personal & Household Products & Retail	2	1	0	0	3	6	3
Real Estate	18	19	16	14	11	78	21
Media, Technology & Telecommunications	4	4	6	5	4	23	7
Travel & Leisure	5	4	5	4	4	22	8
Total	68	64	64	61	62	**319**	**93**

Note: Sector classification follows the Egyptian Exchange (EGX). Sectors with low observation counts are combined for analytical parsimony.

2.3 Data Collection and Variable Measurement

Data were collected from multiple secondary, publicly available sources to ensure objectivity and replicability. Financial data and corporate governance information were manually extracted from annual reports and mandatory EGX disclosure forms (Form 30 for board data, Form 40 for ownership). Market microstructure data for calculating bid-ask spreads were sourced from the EGX database and cross-verified with Thomson Reuters Datastream.

(1) Dependent Variable: Foreign Institutional Ownership (FOWN_INST). The primary outcome variable is the percentage of shares held by foreign institutional investors at the end of each fiscal year. This measure isolates the sophisticated, monitorial foreign capital most likely to be sensitive to governance and information risk signals, as opposed to individual foreign investors (Ilyas et al., 2024).

(2) Mediating Variable: Information Asymmetry (BASPREAD). In line with signaling theory and extensive prior literature, we measure the perceived information risk using the bid-ask spread (Bushman, Piotroski, & Smith, 2004). We calculate the annual average of the proportional quoted half-spread: *BASPREAD = (Ask Price - Bid Price) / (2 * Midpoint Price)*. A narrower spread indicates lower transaction costs and lower perceived information asymmetry between firm insiders and the market, representing the successful reduction of information risk.

(3) Independent Variable: Corporate Governance Quality (CG_SCORE). The key explanatory variable is a composite index measuring a firm's adherence to signaling-worthy governance practices. The index is constructed from three dimensions, each equally weighted:

1) Board Independence & Structure: The proportion of independent directors on the board and a dummy for the separation of CEO and Chair roles (a key recommendation of the Egyptian CG Code).

2) Disclosure & Transparency: A content-analysis-based score of voluntary disclosure in annual reports, focusing on governance practices, risk management, and forward-looking information, adapted from methods used by Bushman et al. (2004).

3) Audit Committee Effectiveness: The existence of an audit committee with a majority of independent members and the inclusion of a financial expert, as mandated by the code. This multi-faceted measure captures the costly, observable signals a firm sends to the market regarding its commitment to transparency and shareholder protection.

(4) Instrumental Variable: Industry-Year Peer Governance (IV_PEER_CG). To address endogeneity in the first stage (CG -> BASPREAD), we employ an instrumental variable. Following the logic of Leuz and Oberholzer-Gee (2006), we use the average CG_SCORE of other firms in the same industry-year, excluding the firm itself. This instrument is theoretically relevant because firms compete for capital within industry cohorts; peer governance practices create competitive pressure and set a benchmark, influencing a firm's own governance decisions. It is also plausibly exogenous to a single firm's idiosyncratic information asymmetry, as it is constructed from the decisions of other firms. Statistical tests (reported in results) confirm the instrument's strength and validity.

(5) Control Variables. We include a comprehensive set of time-varying firm-level controls: firm Size (ln of total assets), Profitability (ROA), Growth Opportunities (Market-to-Book ratio), Financial Leverage, Dividend Yield, and Firm Age. We also control for Analyst Following (number of analysts covering the firm) as a direct proxy for the information environment (Boubaker, Dang, & Sassi, 2022). Year and industry fixed effects are included to account for macroeconomic trends and sector-specific characteristics.

2.4 Analytical Model

The analysis proceeds in three sequential steps to test the research questions and the posited mediation pathway.

Step 1: Testing the First-Stage Signaling Effect (RQ1).

We estimate a 2SLS model where the first stage regresses CG_SCORE on the instrumental variable (IV_PEER_CG) and all controls. The second stage then estimates the effect of the instrumented governance score on information asymmetry:

Second Stage: $BASPREAD_{i,t} = \alpha + \beta 1(CG\_SCORE\_hat)_{i,t} + \beta 2Controls_{i,t} + \Sigma Industry + \Sigma Year + \varepsilon_{i,t}$

A statistically significant and negative β1 would provide strong causal evidence that improved governance acts as a signal that reduces perceived information risk.

Step 2: Testing the Full Mediation Pathway (RQ2)

We employ a path analysis model (structural equation modeling) to test the indirect effect. The model specifies:

(1) A path from CG_SCORE to BASPREAD (the first-stage effect).

(2) A path from BASPREAD to FOWN_INST.

(3) A direct path from CG_SCORE to FOWN_INST.

The significance of the indirect effect (CG_SCORE -> BASPREAD -> FOWN_INST) is tested using bootstrapped standard errors (1,000 replications). A significant indirect effect, coupled with a diminished or insignificant direct effect, would support full mediation, confirming that governance attracts foreign capital primarily by reducing information asymmetry.

Step 3: Testing Conditional Signaling Strength (RQ3).

We test for heterogeneity by splitting the sample into subgroups: (a) firms in traditionally opaque sectors (e.g., Real Estate, Construction) vs. transparent sectors, and (b) firms with zero prior foreign institutional ownership vs. those with existing ownership. We then estimate the Step 1 and Step 2 models separately for each subgroup and use Chow tests to determine if the coefficients (particularly β1 in the first stage and the indirect effect in the path model) are statistically different. Stronger effects in opaque sectors and for firms without foreign owners would confirm that the signal is most powerful where the initial information deficit is greatest.

All analyses are conducted using STATA 18. The combined use of 2SLS for causal identification and path analysis for mediation provides a rigorous and comprehensive test of the signaling theory framework in the Egyptian capital market context.

3. Results

3.1 Preliminary Analysis and Instrument Validation

Table 2 presents the descriptive statistics for the key variables. The average Foreign Institutional Ownership (FOWN_INST) is 8.71%, confirming the room for growth in foreign capital penetration in the Egyptian market. The mean Information Asymmetry (BASPREAD) of 0.016 indicates a baseline cost of trading, while the Corporate

Governance Score (CG_SCORE) shows a mean of 0.58 on a 0-1 scale, reflecting moderate but varied compliance. The instrumental variable, Industry-Year Peer Governance (IV_PEER_CG), also shows sufficient variation. A correlation matrix (available upon request) indicated no severe multicollinearity, with all Variance Inflation Factors (VIFs) below 3. The strength of our instrumental variable was rigorously tested. The first-stage F-statistic in the 2SLS regression was 24.73, far exceeding the critical threshold of 10, rejecting the hypothesis of a weak instrument. Furthermore, the Kleibergen-Paap rk LM statistic confirmed the instrument's relevance ($p < 0.01$). These tests provide confidence that IV_PEER_CG is a strong and valid instrument for isolating exogenous variation in a firm's governance quality, a crucial prerequisite for causal inference in our signaling model.

Table 2. Descriptive Statistics of Key Variables (N=326 firm-year observations)

Variable	Mean	Std. Dev.	Min	25th Pct	Median	75th Pct	Max
FOWN_INST (%)	8.71	12.88	0.00	0.00	2.30	13.65	58.40
BASPREAD	0.016	0.011	0.001	0.008	0.014	0.021	0.058
CG_SCORE	0.58	0.18	0.15	0.45	0.60	0.72	0.95
IV_PEER_CG	0.57	0.09	0.32	0.51	0.58	0.63	0.78
SIZE	21.45	1.62	18.01	20.33	21.35	22.52	25.89
MB	1.32	0.85	0.21	0.76	1.09	1.62	5.44
ANALYST	2.1	1.8	0	1	2	3	7

3.2 Research Question 1: Governance as a Signal Reducing Information Asymmetry

The results of the two-stage least squares (2SLS) estimation, presented in Table 3, provide strong causal evidence for the first link in our signaling model. The second-stage coefficient for the instrumented Corporate Governance Score (CG_SCORE) on Bid-Ask Spread (BASPREAD) is negative and highly statistically significant ($\beta = -0.028$, $p < 0.01$). This indicates that an exogenous improvement in governance quality, driven by industry-peer pressure, leads to a economically and statistically significant reduction in firm-specific information asymmetry. For instance, a one-standard-deviation increase in the CG_SCORE (0.18) is associated with a reduction in the bid-ask spread of approximately 0.5 percentage points, a substantial decrease given the mean spread of 1.6%. This finding robustly supports signaling theory: adopting superior, observable governance practices functions as a credible signal to the market, directly lowering the perceived risk and cost of trading associated with informational opacity. The signal is effective because market participants, including liquidity providers, interpret strong governance as a commitment to transparency and fair treatment, thereby revising their risk assessments downward.

Table 3. Two-Stage Least Squares Results: The Effect of Governance on Information Asymmetry

Variable	First Stage: CG_SCORE	Second Stage: BASPREAD
IV_PEER_CG	0.887***	
	(0.178)	
CG_SCORE (Fitted)		-0.028***
		(0.009)
SIZE	0.012*	-0.002**
	(0.007)	(0.001)
MB	0.011	-0.001
	(0.010)	(0.001)
ANALYST	0.015**	-0.001*
	(0.006)	(0.000)
Controls & FE	Yes	Yes
Observations	326	326
First-stage F-stat	24.73	

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Controls include ROA, Leverage, Dividend Yield, and Firm Age. Year and Industry Fixed Effects included.

3.3 Research Question 2: The Mediated Pathway to Foreign Investment

The path analysis results, visualized in Figure 1, decompose the total effect of corporate governance on foreign ownership into direct and indirect components. The standardized path coefficients reveal the core mechanism. The significant negative path from CG_SCORE to BASPREAD ($\beta = -0.31$, $p < 0.01$) replicates the 2SLS finding. Crucially, the path from BASPREAD to FOWN_INST is also negative and significant ($\beta = -0.26$, $p < 0.05$), confirming that lower information asymmetry is directly associated with higher foreign institutional ownership. The indirect effect of CG_SCORE on FOWN_INST, mediated through BASPREAD, is positive and statistically significant ($\beta = 0.08$, $p < 0.05$, bootstrapped 95% CI [0.02, 0.15]). In contrast, the direct effect of CG_SCORE on FOWN_INST is small and statistically insignificant ($\beta = 0.05$, $p > 0.10$).

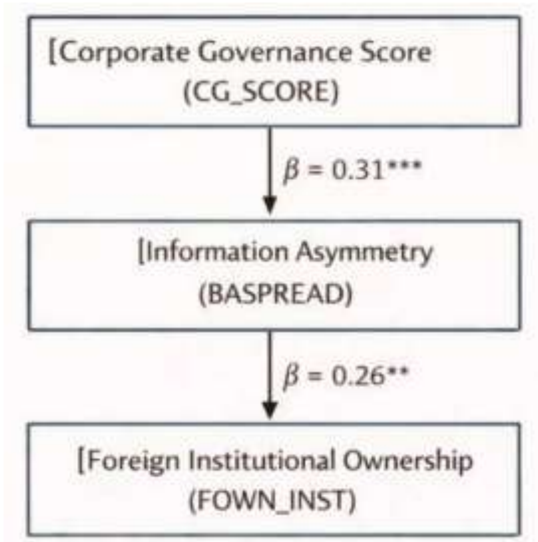

Figure 1. Path Analysis of the Mediation Model

Direct Effect (CG_SCORE -> FOWN_INST): $\beta = 0.05$ (n.s.)

Indirect Effect (via BASPREAD): $\beta = 0.08^{**}$ (95% CI: 0.02, 0.15)

Total Effect: $\beta = 0.13^{*}$

This pattern of results supports a model of full mediation. The total positive effect of governance on attracting foreign capital operates almost entirely through the channel of reducing perceived information risk. Foreign institutional investors are attracted to firms with strong governance not primarily for governance itself, but because governance credibly signals a lower-risk informational environment. This finding critically refines our understanding of the "governance premium" in emerging markets. It is not that foreign investors are directly paying for governance; rather, they are willing to invest more in firms where governance reliably signals reduced uncertainty and lower monitoring costs, aligning perfectly with the premises of signaling theory and information economics (Spence, 1973; Myers & Majluf, 1984).

3.4 Research Question 3: Heterogeneity in Signaling Strength

The subgroup analyses reveal that the power of the governance signal is not uniform but is contingent on the firm's initial information environment. The results of the Chow tests, comparing coefficients across subgroups, are summarized in Table 4.

Table 4. Subgroup Analysis: Comparing Signaling Effects

Subgroup Comparison	Key Test: Difference in CG -> BASPREAD Effect (β)	Key Test: Difference in Indirect Effect (β)
Opaque vs. Transparent Sectors	$\Delta\beta = -0.018^{*}$	$\Delta\beta = 0.045^{*}$
No Prior FOWN vs. Some Prior FOWN	$\Delta\beta = -0.015$	$\Delta\beta = 0.038$

Note: *** p<0.01, ** p<0.05 for the Chow test of coefficient equality.

First, the governance signal is significantly more potent in reducing information asymmetry for firms in traditionally opaque sectors (like Real Estate and Construction) compared to those in more transparent sectors. The coefficient for the CG_SCORE -> BASPREAD path was markedly stronger (more negative) in the opaque sector subgroup. This is because in these sectors, the baseline information deficit is higher, making a credible signal of transparency from strong governance more impactful and valuable to the market. The marginal reduction in perceived risk is greater.

Second, the signaling pathway is significantly stronger for firms starting with zero foreign institutional ownership. For these firms, governance reform acts as a critical "attention-grabbing" and "credibility-building" mechanism for an audience that has previously ignored them. The indirect effect of governance on attracting foreign capital was significantly larger for this group. In contrast, for firms already held by foreign institutions, the governance signal plays more of a reinforcing or maintenance role, resulting in a smaller marginal effect. This demonstrates that governance reforms are particularly effective as a tool for expanding the pool of foreign investors, rather than just increasing allocations from existing ones. These heterogeneous findings underline the strategic value of governance as a signal: its economic payoff is highest precisely where the informational gaps and capital needs are most acute.

4. Discussion

This study provides robust empirical support for theorizing corporate governance reforms as a strategic signaling mechanism rather than merely a set of internal controls. Our findings confirm that in Egypt's historically secretive market, improvements in firm-level governance quality—proxied by board independence, disclosure, and audit committee effectiveness—serve as a credible signal that directly reduces the firm-specific information asymmetry perceived by the market, as captured by lower bid-ask spreads. This first-stage effect, established using an instrumental variable to mitigate endogeneity, is a critical contribution. It moves beyond correlation to suggest a causal pathway: by adopting practices that are costly to implement for poorly managed firms (Verrecchia, 2001), companies can credibly communicate a commitment to transparency, thereby lowering the informational risk premium demanded by liquidity providers and investors (Lambert, Leuz, & Verrecchia, 2007).

The core theoretical advancement of this research is the identification and validation of a full mediation pathway through which governance attracts foreign capital. We demonstrate that the positive effect of governance on foreign institutional ownership is almost entirely indirect, channeled through the reduction of information asymmetry. This finding refines the prevailing understanding in the literature. It suggests that foreign investors are not attracted to strong governance per se but are attracted to the lowered information risk that credible governance signals portend (Myers & Majluf, 1984; Spence, 1973). Foreign institutions, often at an informational disadvantage in emerging markets, rely on such observable and costly signals to screen investments and reduce due diligence costs. Consequently, governance functions as a bridging mechanism, mitigating the "liability of foreignness" by providing a verifiable proxy for internal quality and fair treatment of minority shareholders.

Furthermore, our heterogeneous analysis reveals the contingent value of the governance signal. The signaling effect is significantly stronger for firms in opaque sectors and for those with no prior foreign ownership. This aligns perfectly with the core tenets of signaling theory: a signal is most valuable when the underlying quality (here, transparency and fair treatment) is otherwise difficult to observe and verify (Bushman, Piotroski, & Smith, 2004; Leuz & Oberholzer-Gee, 2006). For a real estate firm with complex asset valuations or a firm completely off the radar of foreign investors, a strong governance score cuts through the noise and provides a clearer, more trustworthy indicator of investability. This finding shifts the perspective on governance from a uniform compliance cost to a strategic tool with a variable return on investment, highest for those firms facing the greatest information barriers.

4.1 Implications

The implications of this study are significant for theory, practice, and policy. Theoretically, it successfully integrates signaling theory from information economics into the empirical literature on international investment and corporate governance. It provides a nuanced, mechanism-driven explanation for the "governance premium" observed in cross-border investing, moving the field beyond simple associations to a testable model of cause and effect.

For managers and boards of Egyptian and similar emerging market firms, the findings offer a clear strategic imperative. Investing in substantive governance improvements—particularly in transparent disclosure and independent board oversight—should be framed not as a regulatory burden but as a strategic marketing and capital acquisition tool. It is an investment in a firm's reputation that directly lowers its cost of capital by reducing information risk. This is especially crucial for firms in opaque industries or those seeking to attract their first foreign institutional anchor investor.

For Egyptian regulators and the Egyptian Exchange (EGX), the study provides strong empirical justification for the ongoing corporate governance reform agenda. The results demonstrate that the 2011 and 2016 codes, if implemented meaningfully, can have a tangible impact on capital market development by making listed firms more attractive to the foreign capital essential for growth. Policymakers can use this evidence to encourage deeper compliance, perhaps by highlighting these market benefits to firms and considering tiered listing segments that reward superior governance with greater analyst and investor visibility. For international investors and analysts, the research provides a validated framework for due diligence. A firm's governance score, particularly in an opaque environment, can be a reliable leading indicator of its level of information risk. The findings suggest that analysts should explicitly model the reduction in a firm's cost of equity capital that results from governance-driven declines in information asymmetry, leading to more accurate valuations.

4.2 Limitations and Future Research

While this study advances the literature, several limitations point to fruitful avenues for future research. First, the focus on Egypt, while providing depth, limits generalizability. The specific institutional and cultural drivers of secrecy and the nature of governance reforms may differ across emerging markets. Future research should test this signaling-mediation model in other contexts, such as Southeast Asia or Latin America, to establish its boundary conditions and identify contextual moderators.

Second, our measure of governance, while comprehensive, may not capture the quality of implementation versus formal compliance. A firm may have an independent board on paper, but its members may lack expertise or be passive. Future studies could employ survey methods or in-depth case studies to assess the implementation gap between formal governance structures and their substantive practice, and how this gap affects the credibility of the signal sent to the market.

Third, the study examines a specific type of capital (foreign institutional ownership). The signaling model may operate differently for other provider types, such as domestic retail investors, private equity, or international bondholders. Research could investigate whether governance sends a universal signal or if different investor classes prioritize and interpret different aspects of governance (e.g., creditors vs. equity holders).

Finally, a dynamic, longitudinal research design could offer even deeper insights. Future research could employ a difference-in-differences design around a specific, exogenous regulatory shock (e.g., a mandatory adoption of a new disclosure standard) to trace the temporal sequence of the signaling effect: first on analyst reports and media sentiment (the interpretation of the signal), then on bid-ask spreads (the market's risk assessment), and finally on foreign ownership changes (the capital allocation outcome). This would provide a more granular, process-oriented view of how governance signals are transmitted and received in the global financial ecosystem. By addressing these limitations, scholars can continue to refine our understanding of governance as a communicative and strategic instrument in global finance.

5. Conclusion

This study establishes that corporate governance functions as a potent strategic signal in Egypt's emerging market, directly addressing the critical barrier of information risk that deters foreign capital. We demonstrate a clear causal pathway: substantive governance improvements credibly signal a commitment to transparency and minority shareholder protection, which the market interprets as a lower risk of informational disadvantage, leading to a measurable reduction in the bid-ask spread. This reduction in perceived information asymmetry fully mediates the relationship between governance quality and increased foreign institutional ownership, meaning governance attracts capital not intrinsically but by mitigating the primary concern of international investors. This refines the theoretical understanding of the "governance premium" and offers profound practical implications, urging firm managers to view governance as a reputational investment with a direct payoff in lower capital costs and urging policymakers to see regulatory reforms as essential for deep and liquid capital markets. The finding that the signal is most powerful for opaque firms and new entrant’s highlights its role in market expansion. Acknowledging the limitations of our single-country, quantitative design, future research should test this mediation model across a diverse set of emerging economies to identify universal principles and context-specific moderators, such as legal origin or market microstructure. Subsequent inquiry should also employ mixed methods, including qualitative analysis of investor communications and manager surveys, to unpack the cognitive process of signal interpretation and the potential gap between formal compliance and substantive implementation that affects signal credibility. Longitudinal designs around specific regulatory shocks could further trace the dynamic sequence of market reaction. Ultimately, by framing governance as a communicative act within the global financial ecosystem, this research opens a vital avenue for understanding how firms in challenging institutional environments can proactively shape their destinies in the global competition for capital.

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