

The value of accounting disclosure in uk capital market

[Business](#), [Accounting](#)



Abstract

This study is focused on identifying the value of accounting disclosure in the UK capital market, citing the relationship between market capitalisation and money raised of 50 selected LSE-listed companies. The data of these companies are obtained from the database of the London Stock Exchange website. Non-probability sampling is adopted in selecting these companies from a list of 350. Linear regression is adopted to present the results. A significant relationship is observed between market capitalisation and money raised. The value of accounting disclosure in the UK capital market are reduction of cost of capital and information asymmetry; consistency of firms' accounting policies; enhancement of management reputation; capability to address the information needs of stakeholders; and mitigate inefficiencies within the market.

The recommendations include pursuing a study on the impact of financial globalisation on financial reporting and on the role of audit committee in corporate governance.

Key words: Accounting disclosure, financial globalisation, market capitalisation, money raised, UK capital market

Chapter 1: Introduction

1.1 Context

Capital markets operate in a highly regulated environment; they are well-developed and well-functioning compared to other markets (Kieff and Paredes, 2010). Pohl et al. (1995) defined capital markets as those markets

for shares (equities) of joint-stock firms and do not engage with markets for other securities, such as bonds, etc. More regulations exist in this market than product and other markets, a fact that is attributed to the historical origin of securities regulation, whereby public investors must be protected against deceptive misleading and manipulative activities by brokers and other personages. Mandatory disclosure and anti-fraud laws are two fundamental ways in which investors are protected in capital markets (OECD, 2001; Kieff and Paredes, 2010; Moore, 2013). In the UK, the London Stock Exchange which serves as its capital market, is valued at £2,307 billion (House of Commons Treasury Committee, 2007).

OECD (2001) described the well-recognised value of disclosure and the well-analysed relationship between the efficiency of the stock market and the available information in the market place. According to Shehata (2014), disclosure is defined in the accounting literature as a process where the firm informs the public of its financial statement. It is also referred to as the financial or nonfinancial communication of economic information, quantitative or qualitative, about a firm's financial position and performance. It is however not entirely clear why the law needs to require disclosure of certain information by a firm (Kieff and Paredes, 2010). There are in fact countries which hold a register system of merchants that present particular information about the amount of capital, names of directors and officers, etc. of business entities. In many jurisdictions, a detailed disclosure system has been provided by securities law for large public firms (Kieff and Paredes, 2010). Notwithstanding, the value of information being disclosed is the basis

of the value of disclosure (Flood, 2014). Accounting and non-accounting types of information are the two kinds of information being disclosed, with this research investigation being centered on the first. The basis of useful accounting information is appropriate accounting treatment (Nikolai et al., 2010; Kieff and Paredes, 2010). Both benefits and costs are involved in mandatory disclosure, with its values being reliant on other elements of corporate governance. Additionally, more available information in the market place enables capital markets to function better, which in turn makes disclosure become more valuable in the capital market-centred environment (OECD, 2001).

The UK capital market, through the London stock market or its bond market, demands that firms disclose information under the guidance of accounting and auditing standards. The authority to set accounting standards has been delegated to the Financial Accounting Standards Board (FASB) in 1974 (Benston et al., 2006). A legal framework facilitates general accounting disclosure and audit requirements in the country. Before the conception of formal standard setting and upon the corresponding increase in public interest, financial reporting standards have been adopted by stock markets (which companies accepted for listing must follow), serving as evidence that markets can and will demand disclosure even in the absence of government directives to do so (Benston et al., 2006). It has been noted that publicly owned companies present their annual reports that include those items described above by Flesher (2010). The domain of financial reporting disclosure is constantly changing.

An important point is that the transparency in information on asset securitisation and derivatives is insufficient; necessitating increased disaggregated information and disclosure vis-a-vis the sensitivity of the fair values of change derivatives in risk variables within a specific market (Eberhartinger and Lee, 2014). Eberhartinger and Lee claimed that disclosure enhancement on fair value accounting would provide improved assistance to investors in terms of assessing the values and level of risk of banks through a clear understanding of the leverage of derivatives.

On the other hand, there are inevitable weaknesses that a firm encounters in mandated disclosure, such as a requirement to public companies to undertake periodic public disclosures, which is the most typical. Most jurisdictions require quarterly disclosure; with the law delineating the scope of information being disclosed. Accounting and financial data comprise the scope of information being disclosed (Kieff and Paredes, 2010).

Leuz and Wysocki (2006) noted that according to research, strict regulations are costly for firms, and these result in avoidance strategies, i. e. going private, having listed in other global markets, and having delisted into unregulated markets. Additionally, the globalisation of capital markets has posted limitations to what a regulator can do. It has been noted that accounting disclosure and auditing rules ascertain the amount of information asymmetries between corporate insiders and outsiders (Dietl, 1998). These rules discourage ownership concentration, facilitate corporate governance, boost risk diversification, and encourage a huge number of investors to participate in capital market operations. On the contrary, weak accounting

disclosure regulations enhance the costs of outside corporate governance; lead to the promotion of ownership concentration; and discourage investors from participating in capital market operations (Dietl, 1998).

Capital markets are designed for long-term securities trading (e. g. shares and bonds), which draw together long-term capital suppliers and demanders. In the UK, the London Stock Exchange (LSE) – which serves as the principal capital market – and the Alternative Investment Market (AIM) comprise the capital market. The LSE offers UK and foreign companies the mechanism for raising capital, government securities, Eurobonds, and so on (McMenamin, 2005).

1. 2 Rationale of the Study

The rationale of the study is found in the fact that communicating firm performance and governance to outside investors necessitates the potential importance of financial disclosure and reporting (Healy and Pelepu, 2001). Efficient resource allocation in a capital market economy is hampered by information and incentive quandaries. These quandaries are mitigated through the important role played by disclosure and institutions tasked to facilitate reliable disclosure between managers and investors. The functioning of the capital market can encounter breakdown if there are information problems arising from information differences and conflicting incentives (Healy and Pelepu, 2001).

1. 3 Research Gaps

There is lack of research explaining why the law requires the disclosure of certain information by a firm (OECD, 2001; Kieff and Paredes, 2010). There

are also important gaps between knowledge on auditors' incentives and intermediaries, and its implication on their credibility. Moreover, whilst it has been suggested by theory that auditors increase the credibility of financial reports, empirical research demonstrated only little research to substantiate this claim (Healy and Pelepu, 2001).

1. 4 Scope of the Study

The scope of this study is limited to London Stock Exchange as a capital market in the UK and excludes other stock exchanges. It is also solely focused on the discussion of capital markets for accounting disclosure and does not include other markets, such as the product market.

1. 5 Research Question

The research question that this study purports to answer is:

What is the value of accounting disclosure in UK capital market, citing the relationship between market capitalisation and money raised of companies trading in this market?

1. 6 Aims and Objectives

The aims of this study are to discuss the value of accounting disclosure in the UK capital market and to explore the impact of globalisation on the ways in which accounting disclosure in this market is carried out.

The objectives are as follows:

To survey the extant literature on accounting disclosure in UK capital market;

To conduct an enquiry on the role of financial globalisation in accounting disclosure in the changing capital market in the UK; and

To examine how accounting disclosure could influence the pattern of market capitalisation and money raised in the UK capital market.

1. 7 Significance of the Study

This study is significant to the academic community as it enables exploring and explaining why accounting disclosure is important to capital markets and corporate governance as a whole, serving as a contribution to the existing literature research on the subject. It provides relevance to the business community in its discussion of the role of globalisation in capital market transactions and accounting disclosure in this market. In addition, it is significant to the future researcher as it serves as research evidence and reference to similar research endeavor being carried out.

1. 8 Ways to Investigate the Research Questions

The ways through which the research questions are investigated are delineated in the items below:

Research Method

Linear regression is carried out to process the data statistically, indicating the use of quantitative method as a way to analyse the data. Olagbemi (2011) stated that quantitative research employs statistical techniques in explaining a certain phenomenon, and likewise presents results statistically. The relevance of adopting the quantitative method is the study's intention to find out the relationship between market capitalisation and money raised in

its attempt to identify the value of accounting disclosure in UK capital market.

Data Collection and Analysis Techniques

Secondary data collection is carried out in this research, in which the researcher utilises non-original or second-hand data collected by another for a specific purpose, which he uses again for his own (Churchill and Iacobucci, 2010). This study does not make use of primary data, such as interviews, surveys, focus groups, etc. and as such relies solely on existing literature on accounting disclosure in capital markets. Since only secondary data are collected, this study thus adopts a desk-based approach.

The analysis technique is based on using high-quality secondary data from accounting disclosure enquiry, using the literature review as basis of evidence.

1. 9 Summary

This chapter provides a discussion of the context of accounting disclosure in the UK capital market; the rationale of the study; research gap; scope; research question; aims and objectives; and ways to investigate the research questions covering the research method, data collection, and analysis technique to be conducted. It described that capital markets function in a highly regulated environment and necessitate the value of disclosure system. The potential value of financial disclosure and reporting is necessary in communicating firm performance and governance to outside investors.

Chapter 2: Literature Review

2. 1 Introduction

This chapter aims to provide a discussion of a range of works and studies from the extant literature on the topic being examined. The purpose is to offer evidence that could help in addressing the research question and objectives. According to Oliver (2012), a literature review is not simply a descriptive inventory or a collection of synopses of related information. Rather, its main objective is to determine what has been known and unknown about a specific aspect of practice that has not been entirely resolved and to identify how this might be resolved and managed according to the evidence presented by research.

2. 2 Accounting Disclosure in Capital Market

Numerous studies have been emphasised on the relationship between accounting information and capital markets. In their article, Dumontier and Raffournier (2002) examined the corresponding evidence of this relationship in Europe and thereby conducted a review classifying the European literature into three groups: Those researches tackling market reaction to recently released accounting information; researches focusing on investors' use of accounting data; and researches that delve on the impact of market pressure on accounting decisions. This discussion is important in looking into the relationship between accounting information and capital markets.

According to Healy and Palepu (2001), corporate disclosure is an important element in the functioning of an efficient capital market. Regulated financial reports serves as the source of firms in providing disclosure, and such

reports include financial statements; management discussions and analysis; and the like. The authors conducted a review of financial reporting and management's voluntary disclosure of information, and thereby argued that demand for financial disclosure and reporting emerges out of information asymmetry and agency conflicts between the management and outside investors. Regulators, auditors, and other intermediaries of capital market enhance the credibility of management disclosures. They cited that new information is generated through financial analysts' earnings forecasts and stock recommendations. They also stated that the contracting perspective research shows compensation, political cost considerations, and lending contracts, influencing accounting decisions. On the other hand, capital market research shows the relatedness of voluntary disclosure decisions and capital market transactions. Evidence also suggests that investors' perspectives of voluntary disclosures (e. g. management forecasts) are taken as credible information.

Further, Healy and Palepu (2001) used the positive accounting theory as an area of focus of research on managers' reporting decisions, on which managements' financial reporting choices are focused. The findings indicated that the disclosure strategies of firms have implications on the speed with which information gets into prices. Findings also suggested that firms utilising accounting methods to speed up earnings are small ones and likewise have relatively high leverage. The unique contribution of the study is its development of a framework for analysing managers' reporting and disclosure decisions in a capital market context. Its strengths include its

clear explanation of the importance of financial reporting and disclosure as a valuable means to communicate firm performance and governance. No weakness was cited for the study.

On the other hand, in Botosan's (1997) study, the author mentioned that the financial reporting community gives importance to the impact of disclosure level on the cost of equity capital. However, there has been lack of established tenets in terms of association between disclosure level and cost of equity capital, thereby making it difficult to quantify them. The author examined such association by regressing firm-specific estimates of cost of equity capital on firm size, market beta, and self-designed measure of the level of disclosure. He used a sample of 122 manufacturing firms in the 1990 annual reports bearing the amount of voluntary disclosure. The results demonstrated association between greater disclosure and a lower cost of equity capital. Those firms that have a high analyst following revealed no evidence of an association between disclosure level measure and equity capital cost, and such lack of evidence is assumed to have been caused by the limitation of the disclosure measure to the annual report (Botosan, 1997).

Botosan's study used historical summaries of quarterly and annual financial results as a method to conduct trend analysis. Descriptive statistics and Spearman correlation coefficients were adopted to present the results. The unique contributions of the study are its discussion of the effect of disclosure level on equity capital cost and its focus on the association between greater disclosure and lower equity capital cost.

Botosan's (1997) study is similar to that of Kothari (2001) in such manner that both carried out an investigation of the relation between financial statements and capital markets. Kothari conducted a review of empirical research to undertake this pursuit. He claimed that the primary sources of demand for accounting research on capital market are market efficiency tests and fundamental analysis, amongst others. Evidence from research on market efficiency tests in relation to accounting information, fundamental analysis, and relevant value of financial reporting tends to be helpful in decisions for capital market investment and corporate financial disclosure. As part of the research method, Kothari (2001) summarised the extant study on the properties of management forecasts. He also reviewed a huge body of methodological capital market research focusing on positive accounting theory. The unique contribution of the research is its inclusion of advanced research in finance, economics, and econometrics. The strengths of the study is its critique of existing research, discussion of unresolved issues, historical perspectives in the accounting literature, and use of various statistical methods to measure variables (e. g. cross-sectional regressions; autocorrelation coefficient of earnings). Its weakness on the other hand, is its methodological complication due to skewed distributions of financial variables and difficulties in the estimation of the expected return rate on securities (Kothari, 2001).

Similar to the work of Kothari (2001), that of Iatridis (2006) was focused on accounting information disclosure in UK firms' financial statements. The aim of the study was to analyse firms' financial characteristics that give broad

disclosures, as well as to provide an assessment of their (firms) motives' financial impact, i. e. raising equity finance. The study examined the firms' financial attributes as they disclose information on key accounting matters, such as accounting policy changes, risk exposure, and adoption of international financial reporting standards, to name some. Iatridis (2006) inferred that firms are likely to pursue disclosure of accounting information in their attempt to assure market participants of the consistency of their accounting policies with the accounting regulation and thereby address their stakeholders' information needs. The author posited that firms fostering informative accounting disclosures tend to demonstrate leverage measures. The difference of this study from those of earlier ones already discussed is seen in its focus on stakeholders and other market participants vis-a-vis consistency of firms' accounting policies with the accounting regulation.

Conversely, the study of Murray and colleagues (2006) took a different direction than those of Botosan (1997); Healy and Palepu (2001); and Kothari (2001). Murray and colleagues posited that capital markets are taking an increasingly powerful stride at the global level and this power is manifested in the influence of financial markets on environmental and social conditions. The authors assumed that a possible way for markets to become reeducated towards lesser unsustainable modes of behaviour is to pursue social and environmental disclosures. The study was in keeping with much research into financial reporting theory (Murray et al., 2006).

The methods thus utilised included five statistical tests to determine if a link exists between corporate disclosures and share returns. These statistical

tests included Person correlation co-efficient, chi-square test, and a general linear model. The findings suggested that firms' profitability has not been adversely affected by disclosure of sensitive accounting information. The unique contribution of Murray and colleagues' (2006) study is its emphasis on the fact that the implementation of international financial reporting standards fosters consistency and reliability in financial reporting due to enhanced quality of the comparability of financial statements. The strengths of the study include its utilisation of a range of methods to examine the actions and attitudes of individual investors.

Taking a similar direction in their study, Watson and colleagues (2002) explored the notion of agency and signaling theories as bearing an explanation of voluntary disclosure of ratios in firms' annual reports. The authors adopted and tested hypotheses using data gathered over five years for 313 firms in the UK. In particular, their study considered associations between ratio disclosure and firm profitability, firm efficiency, liquidity, return on investment, firm size, and industry type. The results revealed some evidence of a relationship between ratio disclosure on one hand, and firm's performance, firm size, and industry type, on the other. The unique contribution of this study is its emphasis on the evidence of voluntary disclosure of ratios in firms' annual reports.

In their discussion, Gray and Roberts (1997) furthered that financial reporting involves direct and indirect costs, and that explaining the choices of foreign listing involves the significant role of disclosure. Regulatory differences are narrowed through disincentives to list in some EU countries.

A study involving 459 multinational corporations with foreign listings revealed that companies tend to list more on foreign stock exchanges with lower levels of financial disclosure in relation to their own. Incidentally, experts have evaluated the level of disclosure in the UK as being ranked behind the US and Canada, but ahead of France, Japan, and Germany (Gray and Roberts, 1997). To the extent that disclosure regulations are concerned, the requirements of LSE are relatively modest for foreign companies. All EU members adopt mutual recognition whereby those companies that comply with their local requirements are also considered to comply with the requirements imposed by LSE (Gray and Roberts, 1997).

2. 3 Corporate Governance in Capital Market

Haque and colleagues (2008) designed a conceptual framework intended for the relationship between corporate governance on one hand, and a firm's financial performance and access to finance – which both determine the development of capital markets – on the other. The framework created an assumption that the corporate governance of a firm is concurrently ascertained by a set of associated governance components and other firm characteristics. The authors noted that whilst a crucial role is played by the capital markets in improving the standards of corporate governance, poor firm-related corporate governance might hamper the effectiveness of this pursuit. In addition, the firm's ability to foster financial performance and obtain access to finance can be enhanced by the quality of firm-level corporate governance, thereby leading to the development of the capital market. The basis of the framework is the use of economic approaches to corporate governance, as well as some aspects of the assumptions of

stakeholder theory. The authors furthered that the capital market of a developing economy involves a kind of governance role that is being constrained by poor protection of minority shareholders and weak incentives to improve disclosure, to name two. Disclosure and auditing are in fact embodied in firm-level corporate governance, along with ownership and control structure, diversity of the board and management, and responsibility towards stakeholders (Haque et al., 2008). This has been supported by Aguilera and Jackson (2003) where the authors cited the United States as an example in terms of its facilitation of market-oriented control mechanism, in which relatively high disclosure requirements enabled liberal property rights to protect minority shareholders. Accordingly, weak information disclosure requirements and inadequate protection for minority shareholders limit the manner in which collective action challenges in corporate control could be addressed (Aguilera and Jackson, 2003).

The method employed in Haque and colleagues' (2008) article is a survey of literature, focusing on a discussion of institutional issues of corporate governance, transparency and accountability, access to finance, firm financing, and financial performance. The theoretical approach includes the use of stakeholder theory in analysing the relationship between corporate governance and the development of capital markets. Its unique contribution is the development of a framework that is based on an assumed determination of a firm's corporate governance by associated governance components and other firm characteristics. In the light of these, the strengths of the article is its thorough discussion of corporate governance

and its link to capital market development, as well as a clear incorporation of theories into the analysis context. No weakness is perceived from the paper.

2. 4 Accounting Disclosure and Market Capitalisation

In his study about the effect of the intellectual capital disclosure of Fortune 500 companies on market capitalisation, Abdolmohammadi (2005) pointed to the significant differences between the new and old economy industries in relation to partnerships and brands' categories of intellectual capital in their adoption of disclosure. The author showed in the results that market capitalisation is significantly impacted by intellectual capital disclosure, thereby affecting how disclosure standards in annual reports are established. The unique contribution of this study is its emphasis on the association between market capitalisation and disclosure, which then assists the research topic on addressing the research questions.

According to Griining (2011), maximising market value is a way to end the attempt of reducing the cost of equity. Corporate disclosure is said to be the ultimate objective of disclosure. Linking market capitalisation and accounting information could be undertaken to analyse this effect. The study was designed to examine the relationship between disclosure in the annual reports and market liquidity. Results demonstrated that disclosure in annual reports tends to boost market liquidity through changes in investors' expectations. The uniqueness of the study is its provision of evidence for the effect of disclosure relating to its 'reduction effect' on capital cost. Its strength is seen in its inclusion of return requirements of investors, direct measures for capital cost, and market value in hypothesis development, and

the likewise adoption of regression models to test the hypotheses. No weakness was identified in the research.

2. 5 Financial Globalisation and Accounting Disclosure in Capital Market

With the disappearance of the barriers to international investment and the likewise improvement in technology, the firm's cost advantage for securities to trade publicly in its country of location will increasingly disappear because of financial globalisation. Securities laws continue to function as a strong determinant of issuance of securities as well as of decisions on whether they should be issued, how these securities are valued, and where they are traded. Stulz (2009) showed a demand for mechanisms that enable firms to commit to reliable disclosure since disclosure helps in reducing agency costs. The presence of financial globalisation allows national disclosure laws to have extensive effects on the welfare of a specific country, firms, and investor portfolio. The author mentioned that much of mandatory disclosure literature has been focused on evaluating whether firms have undertaken sub-optimal disclosure due to the lower benefits from disclosure at the firm level, compared to that of the level of society in general. The article did not cite specific theoretical framework in its discussion. The findings revealed that with financial globalisation, the geographical location is no longer an important factor in the trading of securities on organised capital markets. Further, the diffusion of information has been likewise sharply reduced by technological progress. This is parallel to the discussion of Webb and colleagues (2008) in which they pointed to the relevance of financial globalisation as an avenue through which firms from weak legal environments (civil law countries) can benefit from good disclosure as a

result of such globalisation. The unique contribution of Stulz's (2009) study is its focus on financial globalisation, which is likewise considered herein as its strength, along with the article's discussion of securities laws that allow firms to commit to disclosure policies that maximise shareholder wealth (Stulz, 2009). One weakness cited for the article is the lack of theoretical framework or lack of theories that could serve as its theoretical underpinning.

Similarly, the work of Gray and colleagues (1995) was emphasised on the impact of pressures of international capital markets on the annual reports' corporate voluntary disclosures in the multinational enterprises in the US and UK. In particular, it aimed to provide evidence on whether disclosure of more harmonised information is demonstrated by internationally listed US and UK multinational enterprises than those which are listed only on their corresponding domestic stock markets. The authors cited a range of reasons why firms may undertake voluntary information disclosure, such as the provision of information aside from what the regulation requires.

Notwithstanding, in the framework of capital market pressures, the major impetus tends to be an intention to reduce the firm's cost of capital. Through reduction of information risk, the firm may enable investors to accept a lower return rate, in which such acceptance in turn reduces the cost of capital for the firm. The unique contribution of Gray and colleagues' (1995) article is its focus on the growing globalisation of financial markets and the current speedy increase in the number of firms acquiring listings on foreign stock exchanges.

Some companies undertake disclosure of their financial statements for parent companies and for major subsidiaries separately. There are those that adopt two or three different sets of accounting standards to produce different sets of published financial reports in a simultaneous manner. In the international sphere, disclosure is pursued in cash flows, current cost, value added, evidence of corporate social responsibility, national and international accounting standards being brought together, and the like. Related studies have tackled such questions as disclosure patterns in individual countries related to some baseline requirements, i. e. those listed under LSE (Flesher, 2010). LSE serves as the first stock market in Europe in terms of requiring disclosure of individual executive remuneration (Krivogorsky and Dick, 2011). Assessments are pursued on what active financial analysts would like to have, as opposed to what is available to them. In this chapter, Healy and Palepu (2001) reiterated that new information is generated through financial analysts' earnings forecasts and stock recommendations. The biggest recent advance is the creation and increasing accessibility of the growing number of databases for financial disclosure (Flesher, 2010), which could be largely attributed to the disappearance of barriers to international investment and the likewise improvement in technology, as pointed out by Stulz (2009).

2. 6 Summary

This chapter has discussed the concept of accounting disclosure in capital market; corporate governance; market capitalisation; and globalisation and accounting disclosure in this market. Accounting information and capital markets have a distinct relationship in that corporate disclosure is important

in ensuring efficient functioning of capital market. Firms provide disclosure through regulated financial reports (e. g. Healy and Palepu, 2001).

In addition, firms' disclosure strategies influence the speed with which information gets into prices. Despite the significant importance appropriated by the financial reporting community on the impact of disclosure level, there remains a lack of established tenets in the relationship between disclosure level and cost of equity capital (e. g. Botosan, 1997). Fundamental analysis and market efficiency tests are the major sources of demand for accounting research. It has been noted that firms that promote informative accounting disclosures are likely to exhibit leverage measures (e. g. Iatridis, 2006). Furthermore, financial globalisation caused the disappearance of the barriers to international investment – along with improvement in technology – and it likewise enabled the speedy increase in the number of firms obtaining listings on foreign stock exchanges (e. g. Gray et al., 1995; Stulz, 2009).

Chapter 3: Research Methodology

3. 1 Introduction

This chapter provides a systematic approach aimed to answer the research question identified in Chapter 1. This approach is through adoption of a specific research design (qualitative), data collection (secondary data), and analysis technique, as well as identification of ethical considerations governing the overall pursuit of this research.

3. 2 Research Design

The research design commonly used in research are qualitative and quantitative, or the combination of both. Qualitative design is that which is

pursued not to quantify or measure variables but to focus on the language and meaning of people's own construction of their experiences and beliefs (Lapan et al., 2012) it is characterised by multiple methods, as well as a naturalistic or interpretive approach. Its emphasis is the daily life of a certain person or event. As this research design is in effect naturalistic and interpretive, the qualitative researcher examines a phenomenon in its natural setting, of which he/she likewise tries to decipher such phenomenon in relation to the meanings attached to them by people (Wigren, 2007). Statistical methods have no room in qualitative research since the involved data are not numerical in form and could not hence be quantified or measured. Qualitative research does not also intend to test theory or hypothesis as it is a feature of quantitative research (Flick, 2008; Bryman, 2013). In addition, the qualitative research method is aimed at describing certain aspects of a phenomenon (i. e. accounting disclosure in capital market), with a perspective of explaining the subject of study (Trochim et al., 2010).

Quantitative research, on the other hand, adopts statistical techniques in explaining a certain phenomenon, and likewise presents results statistically (Olagbemi, 2011). It tends to determine whether variance in x (market capitalisation) causes a corresponding variance in y (money raised), and to what extent this is taking place. In the accounting field, quantitative studies exclude the potential of investigating in-depth issues that usually ask the 'why' and 'how' of accounting practices. The quantitative research tradition is being adopted in this domain, enabling the explanation of phenomenon

variance through systematic comparisons, connoting the central role of analysis of causal relationships between variables (Green, 2005; Hoque, 2006); that is, market capitalisation and money raised. Since this study aims to quantify the relationship between market capitalisation and raising capital amongst selected LSE-listed companies, the quantitative research design is adopted.

3. 3. Data Collection Technique

The common data collection techniques utilised in research are primary and secondary. Primary techniques are those that involve the collection of original or first-hand data for a specific purpose, such as interviews, questionnaires, focus groups, etc. (Mukul and Deepa, 2011). Secondary techniques, on the other hand, are those that involve non-original or second-hand data gathered by another for a specific purpose, which are again used by the researcher for his own study (Beri, 2008). Examples of secondary data are those from peer-reviewed journals, books, corporate reports, and online resources, to name a few.

This study's utility of primary data is that which is focused on processing raw information from selected LSE-listed companies, which are generated through the London Stock Exchange website. The companies are from various sectors and are trading in the UK capital market through LSE. In particular, there are 50 companies from an original list of 350 involved in the study.

Secondary data, on the other hand, are applied through their reference to the value of accounting disclosure in the UK capital market, which is drawn

from the extant literature. A desk-based approach is adopted as the study pursues collection of primary and secondary data from available sources.

3. 4 Sampling Technique

Sampling is the process that allows the researcher to select the subjects or research participants in the study. Selecting a sample necessitates defining the group of cases, also known as the population that meets specific criteria, to which the study's results are intended to form a generalisation (Dutta, 2013).

The non-probability sampling technique is used to select which companies are to be included in the sample from a range of data in the data set. No specific criterion was adopted for the selection. According to Dutta (2013), judgment sampling is applied when utilising the non-probability sampling technique, whereby the researcher has direct or indirect control over such selection.

3. 5 Analysis Technique

Regression analysis is used to analyse the relationship between market capitalisation and money raised amongst selected LSE-listed companies. It is important to note that these companies are assumed to undertake accounting disclosure in their operations, as required by the UK accounting policies for corporations and incorporations. Finding out the relationship between market capitalisation and money raised would suggest whether a correlation exists between these two variables. The independent variable (x) is market capitalisation, whilst the dependent variable (y) is money raised.

Further, the analysis of findings involves the use of linear regression to find out the relationship between market capitalisation and money raised, and is likewise largely based on the extant literature, through which research inferences and enquiries are to be conducted. Themes are grouped according to their manner of discussion, citing their relevance in relation to theories being adopted – agency theory, positive accounting theory, and game theory. The idea is to examine the extant literature on the value of accounting disclosure in the UK capital market and analysing them using various works and theories as evidence.

The 50 LSE-listed companies are assumed to adopt accounting disclosure, as required by FASB, GAAP, GAAS, and by LSE itself. Whether or not they adopt accounting disclosure vis-a-vis their market capitalisation and money raised is not a point of discussion however, considering that the dataset does not include an indication whether the involved companies indeed observed accounting disclosure or not. Therefore, it is assumed that these publicly listed companies employ accounting disclosure as this study examines the relationship between their market capitalisation and money raised.

3. 6 Ethical Considerations

Ethical considerations are important aspects in any research endeavor to ensure the integrity of research. In this study, first of these considerations is the adoption of a specific referencing style to cite the secondary data sources. This referencing style is identified in this research as the Harvard referencing style. Furthermore, it is important to acknowledge the sources of data being used in the study since they are not owned by the

researcher but are only borrowed from another. Therefore, using certain ideas in the research without citing them in the references and within the text would constitute plagiarism, as the researcher is using the ideas of another and appears to be citing them as his/her own, which are in fact not (Johnson and Christensen, 2014). The value of paraphrasing or using one's word in citing secondary sources is also noted here as an aspect of ethical considerations.

3. 6 Summary

This chapter covered a discussion of specific research design to be employed (quantitative), a data collection technique (primary and secondary), analysis technique (regression and survey of the literature), and ethical considerations. The suitability of the quantitative research design for this study is found in its adoption of numerical data and the presence of quantification or measurement of variables. The variables being examined are market capitalisation and money raised of selected companies listed in the London Stock Exchange.

Non-probability sampling is used to select the companies from a range of companies in the LSE dataset. In determining the relationship between money raised and market capitalisation, it is assumed that they likewise undertake accounting disclosure.

Chapter 4: Analysis

4. 1 Introduction

This chapter is designed to provide analysis of the research question and address the aims and objectives identified in the first chapter. Specifically, it

outlines the value of accounting disclosure in UK capital market, focusing on London Stock Exchange, and discusses theories – agency theory and signalling theory – as theoretical underpinnings of the research.

4. 2 The Value of Accounting Disclosure in the UK Capital Market

Data from the dataset of London Stock Exchange (2014) are used to find out if there was a significant relationship between market capitalisation and money raised amongst involved corporations listed in this financial market. The total number of companies in the dataset is limited only to 50, from a list of 350. It must be noted that all of these companies are assumed to comply with the needed accounting disclosures of FASB, GAAP, and GAAS, which is the rule for listed companies in LSE (Benston et al., 2006; Krivogorsky and Dick, 2011). Appendix-1 provides the list of the 50 companies for which an analysis of a relationship between market capitalisation and money raised is performed using a linear regression.

With the linear regression, the independent variable (market capitalisation) and the dependent variable (money raised) are analysed. The purpose is to determine any relationship between these variables for companies that are assumed to observe accounting disclosures, as they are listed in the London Stock Exchange, where such disclosure is highly required, compared to unincorporated organisations (Benston et al., 2006; Haque et al., 2008).

In Figure 1, the P-value indicates that for every increment increase in market capitalisation, one can expect a point average to go up by 4 per cent. On the other hand, the P-value for the slope coefficient – which is 0. 00 – is significant, which means that there is a significant relationship between

market capitalisation and money raised. Figure 1 also suggests that with the slope coefficient of 0.09, every increase in the money raised means a corresponding increase in market capitalisation by 90 ? m. With the positive coefficients (positive slope = 0.09), a positive relationship between the two variables (market capitalisation and money raised) is indicated. This is congruent with the literature in which it was posited that financial globalisation, which is promoted in capital markets, tends to maximise shareholder wealth. Stulz (2009) and Haque et al. (2008) likewise stressed access to finance, firm financing, and financial performance as outcomes of corporate disclosure and governance. The regression graph in Figure 2 however suggests non-typical fluctuations in regression lines, given the standard error of 82.30 shown in Figure 4.

Coeffs	St Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 90%	Upper 90%
Intercept	27.63	13.00	0.002	130.04	1.5053	755.83	49.42
Market Cap (? m)	0.09	0.03	3.30	0.000	0.04	0.15	0.05014

Figure 1: Regression details

When graphed, the regression is shown as:

Figure 2: Graph of the linear regression

Given the above graph, the regression equation being derived is:

Money raised: $27.6 + 0.09x$ $R^2 = 18.4\%$

The regression statistics in Figure 3 shows that 18.5 per cent of the variability in market capitalisation is explained by money raised. Standard error explains the typical deviation error between the actual values in money raised and the predicted values.

Regression Statistics

Multiple R 0.430

R Square 0.185

Adjusted R Square 0.168

St Error 82.301

Observations 50.000

Figure 3: Regression statistics

As mentioned, the 0.00 P value for the slope coefficient indicates a significant relationship between market capitalisation and money raised. What can be inferred here is that the selected LSE-listed companies have positive market capitalisation and money raised, which is consistent with the claim of Kamaruddin et al. (2004) in relation to raising capital as an outcome of trading publicly (which in turn means adopting corporate disclosure). The literature also abounds with information on raising equity finance in relation to voluntary disclosure (Kothari, 2001; Iatridis, 2006) in which it was asserted that firms tend to pursue disclosure of accounting information in their attempt to ensure consistency of their accounting policies with the accounting regulation. In the same manner, the results suggest that the involved firms in the survey tended to have an accelerating general pattern

of market capitalisation and money raised, given the assumption of their observance of accounting disclosure. It is interesting to note that how disclosure standards in annual reports are set is influenced by market capitalisation, as forwarded by Abdolmohammadi (2005).

Further, as has been previously acknowledged, historical perspectives are present in the accounting literature (e. g. Kothari, 2001), which this analysis is taking on in identifying the value of accounting disclosure in capital markets. The Companies Acts and other legislation in the UK have for many years required companies to adopt financial disclosure on at least a minimum level. Only audits are required by the Acts in which it spells out that an auditor, aside from being a member of a recognised body of accountants, must also be independent. The UK Generally Accepted Auditing Standards (GAAS), which was established by an independent body outside the profession, lays down audit guidelines, which along with Generally Accepted Accounting Principles (GAAP), is used as the basis for audit and disclosure requirements imposed in the London Stock Exchange (LSE) (Benston et al., 2006). The filing of the annual financial reports of publicly owned companies in the UK is done with LSE, the agency tasked to make and enforce the securities trading rules and the financial reporting requirements of these companies (Tracy and Barrow, 2012). This is the reason why this study assumes that the 50 selected LSE-listed companies adopt accounting disclosure, to which the relationship of their market capitalisation and money raised is being analysed. Murray and colleagues (2006) noted in the literature review that the implementation of international

financial reporting standards fosters consistency and reliability in financial reporting due to the enhanced quality of the comparability of financial statements. With the relationship between market capitalisation and money raised in selected LSE-listed firms in the study, Griining' s (2011) assertion would be interesting to consider – that linking market capitalisation and accounting information could be carried out to analyse corporate disclosure.

The value of accounting disclosure in the UK capital market is seen in the fact that inadequate disclosure in an annual report is tantamount to utilising erroneous accounting methods for profit measurement, identification of owner's equity and values for assets and liabilities. Improper accounting methods or misleading accounting disclosure will lead to a misleading financial report. Unpleasant lawsuits against the business and its managers are the possible outcome of these deficiencies (Tracy and Barrow, 2012). In the survey of literature, Haque and colleagues (2008) also noted that poor firm-related corporate governance might hamper the effectiveness of capital markets to improve the standards of corporate governance, parallel to what Tracy and Barrow (2012) discussed. Haque and colleagues further mentioned the importance of transparency and accountability in corporate governance, which could be used to analyse the value of disclosure. Similarly, Kothari (2001) posited that evidence from research on market efficiency tests in relation to accounting information, fundamental analysis, and relevant value of financial reporting appears to offer helpful stances in decisions for capital market investment and corporate financial disclosure. The literature also cited the impact of pressures from international capital markets on the

annual reports' corporate voluntary disclosures in the UK multinational enterprises (Gray et al., 1995; Tracy and Barrow, 2012).

Further, disclosure is crucial in the efficient functioning of a capital market (i.e. LSE) because of the fundamental roles it plays in decreasing the information asymmetry between management and shareholders, between investors and management, and between various kinds of investors. In the literature review, the same was also asserted by Healy and Palepu (2001) as they observed that corporate disclosure is an important element in the functioning of an efficient capital market. There is a link between the issue of voluntary disclosure on one hand, and information asymmetry theory, on the other (Neri, 2011). Information symmetry refers to a condition in which some people know some relevant information of all parties involved. The market becomes inefficient because of lack of access of the market participants to the information needed for their decision making. However, this is not the case when disclosure is taken in. Thus, not only does better disclosure regulate information asymmetry, but it also mitigates inefficiencies within the market (Neri, 2011). Healy and Palepu (2001) also made the same claim as they posited that demand for financial disclosure and reporting emerges out of information asymmetry and agency conflicts between the management and outside investors.

4. 3 Financial Globalisation of Capital Markets

The accounting directives of the European Union (EU) serve as the major recent international influence on UK accounting as the former's attempt to harmonise accounting rules across countries within the European Union (EU).

An alternative strategy was employed by the EU upon the Commission's proposal that beginning in 2005, the preparation of consolidated accounts by all listed companies must be on the basis of International Financial Reporting Standards (IFRS). In addition, IFRS could be used by companies for their individual accounts, with which they must seek the permission of their national government. The UK has taken an affirmative response on this since 2005 (Benston et al., 2006). This new rule by the EU did not draw much debate in the UK. The Accounting Standards Board (ASB) has been trying to converge with IFRS, as considerable differences are found between ASB standards and those of International Accounting Standards Board (IASB). At the very least, the role of the ASB is to supervise the implementation of IFRS in the country, address any potential problems as they arise, and set standards for individual entity reports that keep on adhering with the UK accounting standards (Benston et al., 2006). It may be noted that the presence of financial globalisation has enabled national disclosure laws to have extensive effects on the welfare of a specific country, firm, and investor portfolio (Stulz, 2009). Moreover, the size of the capital market in the UK appears to be an important factor that attracts foreign companies to LSE, considering its dominant position in Europe.

In the dataset, the reality of financial globalisation was exemplified in the inclusion of foreign companies in LSE, such as Gibraltar, Cayman Islands, IM, British Virgin Islands, Israel, and Canada, indicating that the UK capital market is not solely limited to the UK alone (See Appendix-1). This is what Stulz (2009) claimed in the literature review that financial globalisation has

led to the disappearance of the barriers to international investment and the increasing accessibility of the growing number of databases for financial disclosure (Flesher, 2010, in which information technology has played a great role (Stulz, 2009).

Strong considerations are also placed on the market reason in that a high level of visibility is indicated in a London listing, both in the UK and the rest of the EU (Gray and Roberts, 1997). In relation to this, a note-worthy point is that of Stulz (2009) in which he stated that financial globalisation initiated the disappearance of barriers to international investment and the likewise improvement in technology, vis-a-vis the increase disappearance of the firm's cost advantage for securities to trade publicly in its country of location. Moreover, with financial globalisation, the geographical location is no longer an important factor in the trading of securities on organised capital markets, as exemplified in the example of London Stock Exchange (Stulz, 2009).

4. 5 Theories in Accounting Disclosure

4. 5. 1 Agency Theory

Agency theory explains the theoretical underpinning with the problem of information between management and shareholders as well as between management and investors (Neri, 2011; Desoky, 2009). The stewardship theory is used to describe these relationships, which may explain the reason for firms' decision to disclose voluntary information in their annual reports. As an aspect of the agency relationship between them, decision-making authority is being delegated to the firm's agents by its principals. This

delegation leads to agency problems because of the agent's incentives to focus on increasing his own wealth than that of the principal. In this regard, the market capitalisation and money raised in selected companies might indicate either of the two, but a thorough investigation would be required for this. In addition, the firm's separation of ownership and control leads to information asymmetry in that it is assumed that the agent has access to higher information and utilises such information toward maximising his own interest at the expense of the principal. This scenario is regarded as the moral hazard problem that involves not only fraud but also such actions involving trade-offs between risk and reward (Neri, 2011). It could be inferred that the reason why this becomes possible for agents is the notion that firms' profitability is not adversely affected by disclosure of sensitive accounting information, as had been claimed by Murray and colleagues (2006) in the literature review. In general, agency cost is a task of the potential conflicts amongst the firm's managers, shareholders, and creditors. With the increase of these conflicts (as well as of agency costs), a corresponding increase in the demand for monitoring takes place as well. Credible disclosure – including accounting information – is part of monitoring being demanded of the firm because shareholders and creditors lack direct access to its performance information. Agency theory describes the choices that agents have concerning policies and information disclosure, which must be included in the annual reports. Through an independent outside auditor, principals possess the right to verify the accuracy of the annual reports prepared by the agents (Neri, 2011). In the same manner, Healy and Palepu (2001) inferred that regulators, auditors, and other intermediaries of capital

market enhance the credibility of management disclosures. The information entered into the annual reports is regarded as an important tool to reduce information asymmetry and agency costs. Agency theory assumes that the costs of the agency relationship (including the monitoring costs involved to monitor managers and the result of their self-serving behaviour) permanently depress the value of the firm (Neri, 2011). In the literature review, Watson and colleagues (2002) also used agency theory in their study in an attempt to explain voluntary disclosure of ratios in the annual reports of firms where they revealed some evidence of a relationship between ratio disclosure and firm's performance, size, and industry type.

Thus, agency theory explains the extent of disclosure of a firm, in which it postulates that the increased independence that the agent experiences results in the agent's less likelihood to disclose information to the principal. The greater the dependence of the agent on the principal for financing, the more likelihood for information to be disclosed to the principal (Kamaruddin et al., 2004). Thus, disclosure in capital markets increases the fairness of these markets and causes price manipulation to become more difficult.

4. 5. 2 Signalling Theory

The signalling theory explains that financial reporting originates from the desire of the management to have disclosure of its superior performance, in which good performance will lead to enhancement of the reputation and position of the management; and good reporting is regarded as one area of good performance (Kamaruddin et al., 2004). Information asymmetric takes

place in the perceived better information of the management than that of outside investors. Voluntary disclosure is a way to provide more information, whereby the level of information asymmetric enables reduction, which is one of the apparent incentives that motivate managers towards disclosure. The firm intends to benefit from favourable voluntary disclosure since such will lead to reduction of information asymmetric and will in turn reduce its cost of capital (Kamaruddin et al., 2004). This is exemplified in Iatridis' (2006) assertion, that firms are likely to pursue disclosure of accounting information in their (firms) attempt to assure market participants of the consistency of their accounting policies with the accounting regulation and thereby address their stakeholders' information needs. In a similar fashion, Gray and colleagues (1995) inferred that firms choose to disclose information in the context of capital market pressures because of an intention to reduce their cost of capital, which is also supportive of the signalling theory. Moreover, Walker and Vasconcellos (1997) asserted that information asymmetry is an imperfection of a capital market, affecting debt and equity. A comparable argument for information asymmetry on which equity pricing depends can also be made for the market's valuation of the firm's debt.

The above discussions provide evidence of the incentives available to firms as they decide to pursue the voluntary disclosure policy. Apart from enhancing the public image of the firm, the policy could also allow the firm to enhance its ability to raise capital.

4. 6 Summary

The value of accounting disclosure in the UK capital market is seen in the fact that inadequate disclosure in an annual report has corresponding legal implications, as such is equivalent to the use of wrong accounting methods in the measurement of profit and determination of values for assets, liabilities, and owner's equity. In addition, misleading accounting disclosure results in a likewise misleading financial report. Improper disclosure also suggests poor corporate governance, which might obstruct the effectiveness of the UK capital market to improve the standards of its corporate governance. Apart from the fact that better disclosure regulates information asymmetry, it also promotes mitigation of inefficiencies within the market. The regression analysis indicates a significant relationship between market capitalisation and money raised amongst selected companies listed in London Stock Exchange. It is suggested that these companies increase in money capitalisation as they likewise increase in money raised.

Agency theory infers that the costs of the agency relationship (i. e. the monitoring costs to monitor managers and the result of their opportunistic behaviour) permanently depress the value of the firm. The information entered into the annual reports allows reduction of information asymmetry and agency costs. In signalling theory, the value of accounting disclosure in UK capital market is demonstrated in an attempt to assure market participants of the consistency of their accounting policies with the accounting regulation, and hence respond to information needs of their stakeholders. Additionally, firms pursue disclosure of information because of the intention to reduce their cost of capital.

Chapter 5: Conclusion and Recommendations

5.1 Conclusion

This study has been centred on determining the value of accounting disclosure in the UK capital market, citing the relationship between market capitalisation and money raised of companies trading in this market. The quantitative research tradition is adopted as the specific research design, using linear regression as the statistical process in analysing the data. This research direction allows for identifying whether market capitalisation leads to increased money raised amongst 50 selected LSE-listed firms. The adoption of the quantitative research design has indicated the central role of the analysis of causal relationships between market capitalisation and money raised. It is assumed that the selected companies adopt accounting disclosure, which is required of them by IFRS, GAAP, GAAS, and even by LSE itself. The dataset is taken from the LSE website, from which only 50 companies are selected through the non-probability random sampling technique.

The regression analysis demonstrates a 0.00 result of the P-value for the slope coefficient, which is considered significant, and thus connotes a significant relationship between market capitalisation and money raised. The regression result also revealed that market capitalisation increases by 90 ? m in every increase in money raised. The positive coefficients likewise suggests a positive relationship between the two variables. The result coincides with the assertion in the literature that access to finance, firm

financing, and financial performance are outcomes of corporate disclosure.
This is also in