Strategy and Business Model Disclosure in Corporate Annual Reports: A Study of UK Listed Companies

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DEDICATION

This thesis is dedicated to God Almighty**!** I give all the glory to God Almighty, who has endowed me with good health, strength and perseverance to come to the end of this intellectual journey.

DECLARATION

I hereby declare that this submission is my own work, and to the best of my knowledge, it contains no materials previously published or written by another person, nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

ABSTRACT

The UK Companies Act 2006 has made it a legal requirement for companies, since October 2013, to disclose their ‘Strategy’ and ‘Business Model’ as part of their annual report. The Act, however, does not define what is meant by the two terms. This means that the content of the disclosure remains at the discretion of managers. Prior to this, the UK 2010 Corporate Governance Code required companies to disclose their Strategy and Business Model. The Code, however, is based on a ‘comply or explain’ approach.

This study contributes to the understanding of the disclosure of Strategy and Business Model in the annual reports of UK listed companies before and after the introduction of the regulatory requirements. To achieve this, the thesis aims to investigate the extent of the disclosure of Strategy and Business Model, the impact of regulations and the determinants of such disclosures. The sample includes companies operating in three industry sectors: Banking; Food and Drug Retailers; and Gas, Water and Multi-utilities, over a period of 10 years, taking into consideration, the periods before and after the Corporate Governance and Companies Act requirements.

To achieve the aims of the thesis, it has been necessary to adopt a pragmatic approach, which entails the use of results from a qualitative approach as inputs to a quantitative approach. Further, the study adopts a longitudinal approach and collects empirical data from annual reports and databases. This study also relies on agency and signalling theory to provide explanations on Strategy and Business Model disclosures in annual reports. The study finds that the mandatory requirement has had a statistically significant influence on the disclosure of both Strategy and Business Model. However, the practice of Business Model disclosure is not yet at the same level as Strategy. Lastly, the findings reveal that disclosure is mostly affected by market and corporate governance incentives.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS

ACCA - The Chartered Institute of Certified Accountants

AR – Annual Report

ASB - Accounting Standards Board

BM - Business Model

CICA - Canadian Institute of Certified Accountants

CEO – Chief Executive Officer

CSR – Corporate Social Responsibility

EASD - European Association of Securities Dealers

FASB - Financial Accounting Standards Board

FRC - The Financial Reporting Council

FRS - Financial Reporting Standard Board

FSA - Financial Services Authority

FTSE - Financial Time Stock Exchange

GWM - Gas Water and Multi-Utilities

HSBC – Hongkong and Shanghai Banking Corporation

IAS - International Accounting Standard

IASB - International Accounting Standards Board

IC – Intellectual Capital

ICAEW - Institute of Chartered Accountants in England and Wales

IFAC - International Federation of Accountants

IFRS - International Financial Reporting Standard

IPO - Initial Public Offerings

IR - Integrated Reporting

MD&A - Management Discussion and Analysis

OECD - Organisation for Economic and Co-operation and Development

OFR - Operating and Financial Review

RBS - Royal Bank of Scotland

SEC - Securities and Exchange Commission

UK - United Kingdom

USA - United States of America

CHAPTER 1 INTRODUCTION TO THE THESIS

1.1. Background to the Study

The widening gap between statutory corporate disclosure and the actual needs of investors and stakeholders has become increasingly apparent as business practices have developed and more sophisticated investment tools have become widespread. In addition, the issue of transparency in the annual report has gained a high profile in the last few years, particularly following events such as the Parmalat and WorldCom accounting scandals (O'Regan, 2010). Managers have better information than outsiders as well as incentives to favourably bias the information they supply to outsiders and take actions that result in deadweight losses and thus reduce firm and equity values (Jensen and Meckling, 1976; Watts and Zimmerman, 1986).

Information asymmetry between the firm and third parties, whether these are investors, creditors, employees or the public authorities, has been considered as one of the main culprits of financial and economic crisis (Yeoh, 2010). Hence, in as much as transparency is closely related to corporate disclosure practices, disclosure, whether voluntary or mandatory, would have the virtue of reducing information asymmetries, allowing effective control of managers, and (re-) establishing good governance.

Additionally, corporate disclosure is critical for the functioning of an efficient capital market Healy and Palepu (2001)[1]. In sum, though the problem is not new, the last economic crisis has installed transparency, and thus disclosure, as a one-stop shopping solution (Farvaque et al., 2011). Interestingly, Farvaque et al. (2011) questioned if the magnitude of attention and emphasis placed on disclosure is justified?

[1] 'Disclosure research draws upon economic information asymmetry arguments and agency theory, dealing with objective economic facts' (Beattie, 2014, p. 112).

The accounting and financial reporting system is a critical source of verifiable information that is useful in monitoring and evaluating managers as well their decisions and strategies (Watts and Zimmerman, 1986; Bushman and Smith, 2001). Firms provide disclosure through regulated financial reports, including the financial statements, footnotes, management discussion and analysis, and other regulated filings (Healy and Palepu, 2001).

What is disclosed is viewed as information which may be in the form of financial information (quantitative or numerical in nature) or non-financial information (narratives, qualitative text) (Beattie, 2014). Accounting narratives offer a very rich and complex set of inscriptions and represent a distinct genre of business communications (Rutherford, 2005; Rutherford, 2013). Narrative reporting complements financial accounting reporting and includes discussions on management's take on future prospects and risks, brand equity considerations, and the planned management response among others (Yeoh, 2010; Hassanein and Hussainey, 2015). Policymakers have long emphasised the importance of narrative disclosures in helping investors understand a company's financial performance and risks (see Leung et al., 2015). Tennyson et al. (1990) highlighted that the narrative section of the annual report is management's unique opportunity to communicate directly with present and potential shareholders and creditors.

Also, prior literature has provided evidence on narrative reporting being associated with information asymmetry arising from the separation between corporate ownership and management is perceived to be resolved through corporate disclosure, in particular narrative reporting (Beattie, 2014; Bromwich, 1992). The focus of this study is on accounting narratives, in particular, Strategy and Business Model (hereafter, BM) disclosure. A company's Strategy is the game plan that management uses to stake out a market position, conduct its operations, attract and please customers, compete successfully, and achieve organizational objectives (Arthur and Thompson, 2017). According to Rumelt et al. (1991) Strategy is about the direction of organizations, it includes those subjects that are of primary concern to senior management, or to anyone seeking reasons for the success and failure among organizations. Meanwhile, an organization's BM is its system of transforming inputs, through its business activities, into outputs and outcomes that aim to fulfil the organization's strategic purposes and create value over the short, medium and long term (Gould, 2014). Strategy and BMs are fundamental to performance hence it has been argued that that they are complements and not substitutes (Rudtsch et al., 2014).

In disclosing valuable information such as Strategy and BM management confronts a dilemma; much of the information that investors need in forecasting cash flow with less uncertainty, and hence increase the value of the firm, is the same information that could affect proprietary costs imposed by the reaction of competitor(s) and other actors to the information released (Healy and Palepu, 2001; Coebergh, 2011a). It is doubted that information can be made available to the securities market without being available to competitors. In which case, management has to examine the cost and benefit of releasing such valuable information, considering the valuation need of the information and the possible proprietary costs associated with such disclosure.

A description of the business is essential for an investor to gain an understanding of the industries and markets in which the entity operates (see Alberti et al., 2009). This includes its segments, products and services, BM and processes, distribution methods, the business structure including the main operating facilities and their location. Further, in order to improve the quality of corporate reporting, a guideline issued by The Canadian Institute of Chartered Accountants (CICA, 2002) emphasizes the importance of disclosing according to a strategic view of business. This framework suggests that accompanying narrative information concerning company vision (core business and long-term business Strategy), critical success factors, capabilities (resources) for achieving desired results, expected results, and connected risks and opportunities should be included in annual reports. Furthermore, Beretta and Bozzolan (2008) described the ‘richness’ of the content of annual reports as a function both of the width of the disclosures on different topics regarding a firm’s BM and value-creation Strategy, and of the depth of the disclosures about the presence insights into a firm’s future performance.

Thus, ‘disclosure is viewed as a rational trade-off between costs and benefits – a strategic managerial decision involving complex interdependencies’ (see Beattie, 2014). In line with this argument, The Steering Committee of the Financial Accounting Standard Board suggested the process management should adopt to offer, voluntarily, high-quality disclosure. The aim of the process is to recognize and disclose information that is useful to investors without affecting the company’s competitive position (FASB, 2001a). Accordingly, it was stressed that it should be considered whether voluntary disclosures about the company’s forward-looking strategies and plans and metrics would adversely affect the company’s competitive position and whether the risk of adversely affecting competitive position exceeds the expected benefit of making the voluntary disclosure.

Nonetheless, the concern that annual reports, particularly narrative reports, are becoming too long and complicated, such that key messages are lost in ‘a sea of detailed and regulatory disclosures’, and how best to develop narrative reporting is a debate in the UK, Europe, and worldwide (see Beattie and Smith, 2013).

1.2 Motivation and Justification for the Study

Whittington and Yakis-Douglas (2010) stressed that there is a concern that the long-term strategies of firms are not being adequately understood to serve the long-term interests of both firms and economies more widely. Hence, they envisaged that Strategy communications would shift from the domain of voluntary disclosure towards more mandatory disclosure. In line with this argument for example, corporate laws and various capital market regulations in the UK lay down the minimum level of access to key corporate information. In 2010, the UK Corporate Governance Code introduced a requirement for listed companies to disclose in their annual reports their BM and Strategy for delivering corporate objectives (FRC, 2010a). The requirement arose from responses to consultation on revision of the previous version of the code where respondents asked for more contexts with which to interpret directors' identification of key risks.

Also, in 2012, the UK government proposed a new framework included in The Companies Act (2006) for narrative reporting to include a strategic report, though like the business review, but quoted companies are required to include a report on their Strategy, their BM and any human right issues, effective from October 2013 (FRC, 2012a). The UK Corporate Governance Code adopts a 'comply or explain principle', however, although the amended Companies Act has made the disclosure of Strategy and BM mandatory, the content of such disclosure remains at the discretion of managers, as the Act does not specify the content of the disclosures. However, The FRC made a call for comments about its guidance on such disclosures. The conclusion of government after the analysis of responses is to allow companies to tell an integrated story in their own word, starting with their BM and Strategy. Furthermore, Richard Lu and Wu Tucker (2012) note that very little research on Strategy disclosure exists even though it has been touted as a potential alternative to the (alleged) “short-termism” of providing quarterly earnings. Furthermore, Stefanovic and Milosevic (2012) argue that though “BM” and “Strategy” are among the most heavily used terms in the field of business and management, however, the meaning of these terms is not very well understood. This current study contributes to the understanding of both Strategy and BM and to their disclosure.

Additionally, IFAC (2014) pointed out that although BM reporting is on the increase, it is a long way off from being a mature practice. In their study, Alberti et al. (2009) contend that there is a ‘technical gap’ about the concept of ‘BM’ that standard setters can only fill with the suggestion of a framework that companies can adopt for the fair representation of BM in order to disclose such type of information to capital providers and analysts in a decision useful narrative report. This current study contributes to the literature on Strategy and BM by developing a framework for the interpretation of meanings of Strategy and BM and research into the disclosure of Strategy and BM.

Further, Bini et al. (2016) called out for an investigation into BM disclosure practice among different industries, and the possible determinants of such disclosures. Also, Beattie and Smith (2013) called for an investigation of the extent and nature of reporting of the components of BM. This study focuses on Strategy and BM disclosure in annual reports for listed companies because the new legislations were intended mostly for these companies. The theoretical framework employed by this study is agency and signalling theories. This study also uses content analysis to investigate the disclosure practice of Strategy and BM. This leads us to the research objectives and questions this study intends to investigate.

1.3 Research Objectives and Questions

The overall aim of this thesis is to contribute to the understanding of Strategy and BM disclosure in the annual reports. This study is guided by the framework for research on narrative disclosures developed by Beattie (2014). The first objective of this study is to develop a comprehensive disclosure framework to evaluate the content of Strategy and BM disclosures in annual reports, and to investigate current practices of Strategy and BM disclosure. The methodological issues of importance here are thus the concepts themselves (Strategy and BM); the identification of underlying themes and their measurement (measured as 1 if disclosed and 0 for non-disclosure). Additionally, this first objective relates to the first and fifth questions in the proposed narratives research framework (Beattie, 2014) 'what is reported and what should be reported'. Thus, the first objective of this study further examines how companies voluntarily disclosed their Strategy and BM in the annual reports between 2006 and 2012 and mandatorily but with discretion of disclosure content between 2013 and 2015.

In addition, the components of Strategy and BM that are most and least disclosed are identified. Thereafter, this first objective investigates the effect of regulation (both corporate governance requirement and mandatory requirement) on the disclosure of Strategy and BM. Second, this study examines the potential determinants of Strategy and BM disclosures in annual reports of UK companies, using regression analysis. This objective is related to the second question in the framework 'what explains observed practice'.

These research objectives drive the following research questions. The first objective drives questions 1 and 2 while, the second objective relates to question 3 below:

1. Has there been any change in the level of Strategy and BM disclosure between 2006 and 2015?
2. What is the extent of Strategy and BM disclosure in the annual reports?
    a. What items of Strategy and BM are most disclosed in the annual reports?

b. How has regulation been able to influence the disclosure of Strategy and BM?

3. What are the determinants of Strategy and BM disclosure in the annual reports of UK listed companies?

1.4 Research Methodology and Methods

Given the set objectives and research questions of this study, the philosophical perspective applied in the study is a pragmatic approach. This approach provides the appropriate understanding of the theory, methodology and methods in this context, and this paradigm shows that inductive results from a qualitative approach can serve as inputs to the deductive goals of a quantitative approach. The data collected will be qualitative (text) in nature. The study adopts agency and signalling theories as the theoretical lens to provide an explanation and better understanding of Strategy and BM disclosure practice.

This study will use a longitudinal study approach to explore and to provide an understanding of the disclosure practice of Strategy and BM in the annual reports of UK companies. Additionally, this study applies a qualitative content analysis technique to explore what is disclosed as Strategy and BM in order to develop an understanding of the content and meaning of such disclosure. As such, a manual thematic analysis was adopted to assess the narrative information disclosed on BM. However, quantitative content analysis and descriptive statistics were adopted to explore the extent of such disclosure (part of the first objective), the effect of regulation on such disclosure. The second objective is examined using regression analysis - hypothesis testing (see Neuendorf, 2002), and data was collected from databases – FAME and IBES[2]

[2] Some of the data used in the study was provided by my second supervisor.

1.5 Contributions of the Study

This study is an exploratory analysis and contributes to the literature on Strategy and BM disclosure by investigating the extent of Strategy and BM disclosure in the annual reports. Previous research on the disclosure of Strategy in annual reports had been on voluntary disclosure. Additionally, this current study explores the influence of regulation on the disclosure of Strategy and BM. Further, this study examines the possible determinants of the disclosure of Strategy and BM. It is the first empirical study on the effect of regulation on disclosure of Strategy and BM, as well as the determinants and the extent of such disclosure. Thus, this study contributes to the debate about the developments in business reporting models and value creation Strategy. It links the accounting literature with Strategy and BM literature, and develops a disclosure index that can help inform future research.

This current study contributes to the accounting literature on capital market research in the area of regulation and accounting information disclosure. Kothari (2001) highlight that evidence from research on these types of topics is likely to be helpful in capital market investment decisions, accounting standard setting, and corporate financial disclosure decisions. At the same time, this study has successfully answered the call to assess the extent of BM disclosure (Beattie and Smith, 2013), and to examine the potential determinants of BM disclosure, focusing on different industries (Bini et al., 2016).

1.6 Structure of the Thesis

The remainder of this thesis is organised as follows. Chapter 2 briefly reviews the literature and previous studies in the area of Strategy and BM disclosure. In chapter three, the hypotheses development is presented and the independent and dependent variables are described. Chapter four focuses on the discussion of the theoretical lens (agency and signalling) adopted to explain the disclosure practice of Strategy and BM in the annual reports. Thereafter, chapter five discusses the philosophical perspective, research design and methods of collection and analysis for this study, followed by the three empirical chapters.

Chapter six analyses the first research question, describing the disclosure practice of Strategy and BM for the 10-year period. It investigates what is reported as Strategy and BM. It is a descriptive study that employs the use of content analysis and disclosure index to explore the topic under investigation. The second empirical chapter, chapter seven, examines the extent of such disclosure. It goes further to explore the significance of disclosure difference between voluntary and mandatory periods, investigating the significance of regulations on the disclosure. While, the third empirical chapter, chapter eight examines the second question of the accounting narratives disclosure framework looking at what explains observed practice i.e. determinants of Strategy and BM disclosure. Chapter nine concludes the intellectual journey where the findings of the investigations of the three industries and the three empirical chapters are articulated and discussed. It also presents the contributions of the study to the existing debate on the disclosure of Strategy and BM. In addition, it provides an overview of the research and discusses the limitations of the study. It concludes with the conclusion of the thesis and suggestion for future studies

CHAPTER 2 REVIEW OF THE LITERATURE

2.1 Chapter Overview

This chapter reviews the literature on Strategy and BM disclosure. It does so in order to shed light on the subject matter of this study and to identify the key trends and themes, which will inform the study. The first section in this chapter will review the literature on disclosure. Thereafter, the literature on the concepts of Strategy and BM is discussed. Then, the disclosure of Strategy and BM from previous studies will be reviewed, followed by the relevance, costs and benefits of Strategy and BM disclosure.

2.2 Information asymmetry and corporate disclosures

The problems of information asymmetry have long been highlighted in the literature, in particular in the corporate finance literature (Berle and Means, 1932; Jensen and Meckling, 1976). These information asymmetries oppose the manager and the shareholders, or, following a broader view, they oppose on the one hand those who are commonly called insiders (managers and majority shareholders) and, on the other hand, the outsiders (minority shareholders, creditors, and other stakeholders). One could also include the regulatory authorities among these outsiders, as well as information professionals - the rating agencies and financial analysts. As part of a separation between the ownership of capital and control, information asymmetries pose the problem of the ex post control of the choices of managers by shareholders.

The response provided by the traditional literature related to corporate governance was the definition and implementation of incentive contracts. These were supposed to solve the following two problems: first, the cost of perfect information and, second, the inability of shareholders to process information correctly (which is the major reason for delegating power).

However, incentive mechanisms, whose objectives are to make managers' interests coincide with those of shareholders, have shown their pernicious effects (Shleifer and Vishny, 1997) and the Enron scandal. Since the 1990s and the first decade of the 21st century, the solution to the problem of information asymmetry seems to be disclosure, supported by an apparent consensus between economic actors, public authorities and the media. In as much as transparency is closely related to corporate disclosure practices whether voluntary or mandatory, the information asymmetry arising from the split between ownership and management is perceived to be resolved through corporate disclosure (Bromwich, 1992).

In contrast, a major conclusion from literature (see for example Healy and Palepu, 2001; Merkl-Davies and Brennan, 2007)is that it is not at all obvious that disclosure, whether mandatory or voluntary, actually increases the knowledge that economic actors have of the company. First, being transparent does not necessarily mean providing information, since third parties are not shielded from disclosures of fraudulent information or the concealment of important information. Furthermore, current regulation does not include all the necessary specifications relating to the disclosure of firm insider information. Second, it is not certain that a firm will give investors the information they need to take decisions. The company can manipulate the information communicated; it can deliberately make it more complex, or it can make it very extensive and difficult to interpret. Transforming information communicated by the company into knowledge usable by investors requires a great deal of work. If disclosure makes this work less profitable for financial analysts and informed agents, it is possible that the overall knowledge of the company will be reduced (Merkl-Davies and Brennan, 2007). Thus, the fact that communication by companies does not create knowledge or even that it reduces the information available to shareholders is very pernicious. When companies do not communicate much, shareholders know that they do not have information at their disposal, and, as we have seen in particular with (Boot and Thakor, 2001), they will try to acquire this in a costly way.

Managers will try, through credible signals like smoothing results or dividends, to supply information on future profits. But if shareholders have the impression of having information, because of an imposed or voluntary communication policy, they will be much less vigilant. They will simply have an illusion of knowledge, rather than a real knowledge. They could therefore take decisions wrongly believing that they have the relevant information. They will be overconfident: they will think that they have good share price expectations, whereas they are mistaken; they will under-estimate their capacity for error.

2.2.1 The role of corporate disclosure in capital markets

Corporate disclosure is critical for the functioning of an efficient capital market (Healy and Palepu, 2001). Firms provide disclosure through regulated financial reports, including the financial statements, footnotes, management discussion and analysis, and other regulated filings (Healy and Palepu, 2001). A major challenge for any economy is the allocation of savings to investment opportunities. According to Beyer et al. (2010) accounting information plays two important roles in market-based economies. First, it allows capital providers (Shareholders and creditors) to evaluate the return potential of investment opportunities (the ex-ante or valuation role of accounting information). Second, accounting information allows capital providers to monitor the use of their capital once committed (the ex-post or stewardship role of accounting information).

The demand for accounting information by outsiders arises for two reasons (ex-ante and ex-post demand for accounting information). First, ex-ante, firms' managers typically have more information about the expected profitability of firms' current and future investments than outsiders. This information asymmetry makes it difficult for outside capital providers to assess the profitability of the firm's investment opportunities. This problem is exacerbated because insiders (both managers and owner-managers) have incentives to exaggerate their firms' projected profitability. In turn, if capital providers cannot assess firms' profitability, they will under-price firms with high profitability and over-price firms with low profitability, potentially leading to market failure.

The information or ‘‘lemons” problem (Akerlof, 1970) and the resulting incentives to disclose additional information have long been recognized in the disclosure literature. It can potentially lead to a breakdown in the functioning of the capital market. For example, consider a situation where half the business ideas are ‘‘good’’ and the other half are ‘‘bad’’. Both investors and entrepreneurs are rational and value investments conditional on their own information. If investors cannot distinguish between the two types of business ideas, entrepreneurs with ‘‘bad’’ ideas will try to claim that their ideas are as valuable as the ‘‘good’’ ideas. Realizing this possibility, investors will value both good and bad ideas at an average level. Therefore, if the lemons problem is not fully resolved, the capital market will rationally undervalue some good ideas and overvalue some bad ideas relative to the information available to entrepreneurs (Healy and Palepu, 2001). Second, the ex-post demand for accounting information arises from a separation of ownership and control (a characteristic of modern economies), which results in capital providers not having full decision-making rights. To solve the ensuing agency problems, both implicit and explicit contracts often use accounting information such as the use of resources, decisions taken and generated return on investments. Investors value such information ex-post and require a lower rate of return ex-ante when they can rely on such information. Hence, optimal contracts between managers and investors will provide incentives for full disclosure of private information, thus, mitigating the misevaluation problem (see Kreps, 1990).

2.2.2 Integrated Reporting

Integrated reporting has rapidly gained considerable prominence since the formation of the International Integrated Reporting Committee (IIRC – subsequently renamed the International Integrated Reporting Council). Initially, social and environmental disclosures were reported through the corporate annual reports (De Villiers et al., 2014). However, over the last two decades social and environmental disclosures have increasingly been in stand-alone reports. The increased complexities and length of stand-alone social and environmental reports have led to a move to integrate social, environmental, financial and governance information (Dey and Burns, 2010; Hopwood et al., 2010). The main focus of integrated reporting is to provide;

> … a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term. … an integrated report may be prepared in response to existing compliance requirements … If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report (IIRC, 2013a, p. 7-8).

Thus, according to the IIRC (2013a, p.3) integrated reporting should contribute to allowing efficient and productive capital allocation and act as a force for financial stability and sustainability. In creating value, the argument for integrated reporting is that the ability of an organisation to create value for itself is linked to the value it creates for others. As such, financial capital providers are also interested in the value an organisation creates for others when it affects the ability of the organisation to create value for itself. Hence, integrated reports should enable providers of financial capital to assess whether, to what extent and how an organisation's use of, and outcomes for, all the capitals add financial value (IIRC, 2013b).

2.2.3 National Factors and Disclosures

Empirical studies have identified national factors that could explain why firms from the United Kingdom and the United States generally disclose more information than firms from other countries (Dong and Stettler, 2011). These factors include; a nation's cultural values (Zarzeski, 1996), legal systems (Jaggi and Low, 2000), economic development (Archambault and Archambault, 2003) and financial systems (Riahi-Belkaoui, 2002).

2.2.3.1 National Culture

Culture influences how people perceive situations and organise institutions (Archambault and Archambault, 2003). Hofstede (1991) developed a set of dimensions to characterise national factors and to analyse the differences between these countries: power distance, individualism, uncertainty avoidance, masculinity and long-term orientation. Power distance represents the extent to which people tolerate unequal distribution of power within a society. There will be a less demand for accountability and disclosure in societies with high power distance. Individualism describes the relation between an individual and his or her fellow individuals in a society, the extent to which people are independent as oppose to collectivism. Uncertainty avoidance describes the extent to which people feel challenged by unknown situations. Masculinity describes the division of roles between the sexes in the society. Lastly, long-term orientation describes the time orientation of cultures. It is expected that investors and other stakeholders in short-term oriented societies demand a higher level of disclosure because they appreciate transparency and accountability (Santema et al., 2005). Companies in countries that place a high cultural value on power distance and uncertainty avoidance are likely to exhibit less information disclosure because the business environment is well developed and also because the national economy is oriented toward low-risk relationships. In contrast, companies in societies exhibiting high cultural values in individuality and masculinity are likely to be more transparent and to disclose more (Jaggi and Low, 2000; Gray, 1988).

2.2.3.2 Legal Systems

The extent to which a country protects shareholder rights is different across countries. Countries with low protection are generally characterized by high concentration of equity ownership within firms and lack strong capital markets (see Santema et al., 2005). Legal systems are predicted to affect disclosure because different legal regimes can lead to different orientation of company acts and accounting regulations on disclosure. Relatively speaking "common law countries like the UK and US protect investors the most, followed by the German law countries and of the three origins of code law system, French civil law countries protect the least" (Porta et al., 1998 p. 1139). The level of enforcement and protection is assumed to influence the level of transparency and accountability (Santema et al., 2005). As such it is expected that companies listed in the UK disclose more information to their shareholders and other stakeholders than companies in countries with lower investor protection.

2.2.3.3 Economic Systems

Some scholars have focused on economic perspectives, arguing that the economic environment is important to the development of accounting in general and reporting and disclosure in particular (Belkaoui, 1983). Put differently, Choi et al. (2005) take a similar approach arguing that the development of a disclosure system closely parallels the development of an accounting system, and the latter is closely influenced by the level of economic development (p. 146). Hence, countries at different stages of economic development are expected to have different accounting practices and disclosure behaviour.

2.2.3.4 National Financial Systems

Further, the national financial systems may substantially affect accounting measures as well as disclosure practices. (Nobes, 1998) suggests that the distinction between "creditor/ insider" and "equity/outsider" financial systems is the key in weighting the degree of market pressure exerted on those who are responsible for disclosure in financial reports. In credit-based countries where banks are the main financial providers, national accounting systems are oriented to protect creditors' rights. Thus, the pressure for information disclosure in these countries is relatively weaker than in countries with developed equity markets. In contrast, in countries with strong equity markets, accounting is designed to help make investors aware of information that may help predict future performance and associated risks. Disclosure therefore is, intended to meet the information needs of public ownership. Santema et al. (2005) found that national differences in corporate governance and culture do influence the extent to which companies' disclosure their Strategy. This implies that the corporate governance approach adopted in the UK will influence the disclosure practice of companies.

2.2.4 Disclosure Regulation

Beyer et al. (2010) pointed out that the literature on disclosure provides two main reasons for disclosure regulation. First, the misalignment of insiders' (entrepreneurs' or management's) and investors' incentives can make it difficult for managers to credibly convey information. From this perspective, disclosure requirements, accounting standards, auditors, and SEC enforcement actions are mechanisms that allow firms to commit to certain disclosure levels and improve the credibility of disclosed information.

Second, the public goods aspect of disclosures results in free-rider problems, creating circumstances in which managers' incentives to voluntarily disclose information are insufficient even though additional information would improve social welfare. In such cases, regulation mandating the disclosure of certain information can be desirable. Hence, disclosure regulation will, in part, depend on the kind of information that a firm voluntarily discloses or that can (efficiently) be produced by other market participants.

On the other hand, Healy and Palepu (2001) discussed that regulation could also be motivated by concerns other than market failures. This implies that the objective of disclosure regulation could be to redistribute wealth, rather than improve economic efficiency. This leaves an unanswered question: What is the role of regulators in the regulation of Strategy and BM disclosure? Additionally, Leuz and Wysocki (2016) stressed that evidence on the causal effects of disclosure and reporting regulation is still relatively rare. Furthermore, Considering the earlier discussion about the information need ex-ante and ex-post, Beyer et al. (2010) contended that, the ex-ante and ex-post demands for accounting information might not always result in the information being voluntarily supplied. When managers do not voluntarily disclose all their private information, there is room for disclosure regulation in capital markets.

Whatever the regulation is, disclosure, far from providing the financial stability desired, can on the contrary cause crises. In other words, to ensure that managers give investors the information they need to take decisions, it is important to ensure that the information disclosed is a function of both the width of the disclosures on different topics regarding a firm's value creation BM and Strategy, and of the depth of the disclosures about the insights into a firm's future performance (Beretta and Bozzolan, 2008).

Hence, because of the lemons problem, there is a demand for information intermediaries, such as financial analysts and rating agencies, who engage in private information production to uncover managers' superior information (Healy and Palepu, 2001). Although, the aim of mandated disclosures is to alleviate agency problem, several accounting observers opined that mandated disclosures are becoming increasingly irrelevant, because they do not force managers to reveal pertinent information (see Lev and Zarowin, 1999a; FASB, 2001a).

Goto et al. (2008) stressed that the integrity of corporate disclosure sustains investor confidence in trading securities at fair prices, and hence is at the heart of well-functioning capital markets. In practice, however, a firm's disclosure may reflect the strategic decisions of self-interested managers, as it involves a number of estimates, judgments, and assumptions. Thus, managers may have an incentive to obfuscate the firm's true performance, within the allowances of investor protection regulations. As such, disclosure and the institutions created to facilitate credible disclosure between managers and investors play an important role in mitigating these problems (Healy and Palepu, 2001).

2.2.5 Corporate Governance and Corporate Disclosure

The debate on the role of high quality financial information and corporate governance provisions in reducing information asymmetries and agency conflicts is ongoing (Gisbert and Navallas, 2013). Recent research argues that these mechanisms (information and governance) are both substitutes (Bushman et al., 2004) and complements (Ahmed and Duellman, 2007). Corporate governance is a natural topic in the discussion of how legal systems exert influence on disclosure (Pagliarussi and Liberato, 2011). The basic question about corporate governance is how suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer and Vishny, 1997). They justify the focus on shareholders by stating that, contrary to other stakeholders, the former has a sunk investment in the company. If the firm runs into financial difficulties, shareholders are likely to lose their investment whereas other stakeholders such as employees can walk away relatively easy. The OECD, the World Bank, the European Association of Securities Dealers – the EASD – and the European Commission, have adopted this line of argument. Thus, it is argued that financial reporting is shaped by corporate governance approaches (Yeoh, 2010).

So, corporate governance mechanisms are economic and legal institutions that can be altered through the political process (Shleifer and Vishny, 1997). Research has shown that the presence of directors is strongly associated with increased voluntary disclosure (Fama, 1980; Healy and Palepu, 2001; Gisbert and Navallas, 2013). In their study, Santema et al. (2005) concluded that national differences in corporate governance and culture do influence the extent to which companies disclose their Strategy. In this way, the need for Strategy disclosure will be smaller in countries with a dual-board system, than in governance systems with a unitary board system. A larger degree of protection and enforcement will lead to a prevalence of transparency and accountability. An example of this is that companies listed in countries characterized by a strong investor protection are compelled by law to disclose more information to their investors and other stakeholders than companies in countries with weaker investor protection.

According to the UK Financial Reporting Council (FRC), good corporate governance is essential to the effective operation of a free market, which facilitates wealth creation and freedom from poverty (FRC, 2010a). It is argued that the more ingrained the system of corporate governance in a business community, the less the need for a detailed regulation to ensure effective compliance with good standards of business behaviour (FRC, 2010a). Yeoh (2010) opined that under the stakeholder (insider) approach, financial reporting and corporate disclosures appears driven more by the legitimacy and institution theories as management strives to conform to stakeholders' and regulators' expectations. However, under the shareholder primacy (outsider) Anglo-saxon approach, financial reporting is used to resolve the information asymmetries between management and shareholders in normal circumstances or applied as an impression management device in opportunistic situations to manipulate investors' perceptions and response by focusing on the earnings report. This supports the suitability of the theoretical framework adopted for this study – "agency and signalling" suggesting that although corporate disclosure is used to resolve the information asymmetry between management and shareholders, whether disclosure is voluntary or mandatory, corporate disclosure has the potential of a reducing of information asymmetry.

2.2.6 Voluntary versus Mandatory Disclosure

Disclosure theory differentiates between mandatory and voluntary approaches. Voluntary disclosure is a measure of self-regulation or a response to the expectations of stakeholders and civil society for more disclosure (Chandler, 1997). The Financial Reporting Standard Board (FRSB, 2001) defines voluntary disclosure as "disclosure, primarily outside of the financial statements that are not explicitly required by accounting standards or regulations'. Most studies define voluntary disclosure by tracing regulations and accounting standards. For example, (Cooke, 1989 p. 171) defines voluntary disclosure of Swedish companies as "those items that are not stipulated by the Companies Act 1995, the Accounting Act 1976 and by Notices issued by

Accounting Standard Board". Similarly, Hossain (1994 p. 341) specify voluntary disclosure of companies as '…which is not referring to the accounting standards promulgated by the MIA (Malaysian Institute of Accountants), the Companies Act 1965 and the KLSE listing requirements. Voluntary disclosure may be able to be more cost sensitive, but it appears to suffer from biasness associated with the problems of selective dissemination and the adoption of creative accounting in the earnings report.

In contrast, mandatory disclosure results from legislation or regulation. Mandatory reporting especially on a more standardized basis is justified to bridge the deficit of relevant information for users for comparative analysis purposes (Yeoh, 2010). "Mandatory disclosure refers to the existence of disclosure regulation" (Dobler, 2008 p.185). Mandatory disclosure would enhance transparency, help reduce conflicts of interest, deter abusive use of management power, prevent fraud, protect investors, and promote informed decision-making and accountability (Benston et al., 2006; Villiers, 2007). It's been contended that mandatory disclosure requirements only apply if the disclosure is material (see Beyer et al., 2010).

While any Strategy and BM disclosure in a voluntary regime is discretionary, there is discretion in Strategy and BM reporting in a mandatory disclosure regime as well. The latter stem from disclosure rules that give managers discretion for the quality and content of information disclosed. For the purpose of this research, the requirement to disclose Strategy and BM in the annual report is regarded as mandatory, considering that it is specified in the Companies Act, 2006. However, it is argued that the requirement does not specify the content of such disclosures; therefore, management could still influence the 'quality' of the disclosure of Strategy and BMs in annual reports. It appears that the rationale for a mandatory disclosure requirement of strategy and BM information is to create a consistent and continued disclosure level for investors that are not privy to managements' private information (see Bini et al., 2016). This study examines the disclosure of strategy both during the voluntary and mandatory periods.

2.3 Strategy

Strategy is about competitive positioning, differentiation, and about adding value. Thus, in this way, Strategy is associated with the course of action that allows the firm to create a competitive advantage that enhances its value (Porter, 1985; Besanko et al., 2003). (Middleton, 2006) highlight one unifying theme common with all leading authors on Strategy, namely that all definitions of Strategy concern themselves with the future direction of the organization into that future.

According to Rumelt et al. (1991) firms if not all are in competition; such competition includes, competition for resources, competition for customers, and ultimately competition for revenues that cover the costs of their chosen manner of surviving. Also, for survival, firms make strategic choices which include: the selection of goals; the choice of products and services to offer; the choice of an appropriate level of scope and diversity; the design and configuration of policies of determining how the firm positions itself to compete in product-markets; and the design of organization structure, administrative systems and policies used to define and coordinate work (Rumelt et al., 1991). It is a basic proposition of the Strategy field that these choices have critical influence on the success or failure of the enterprise, and that they must be integrated. It is the integration (or reinforcing pattern) among these choices that make the set a Strategy (Rumelt et al., 1991) Figure 2.1 shows various definitions of Strategy.

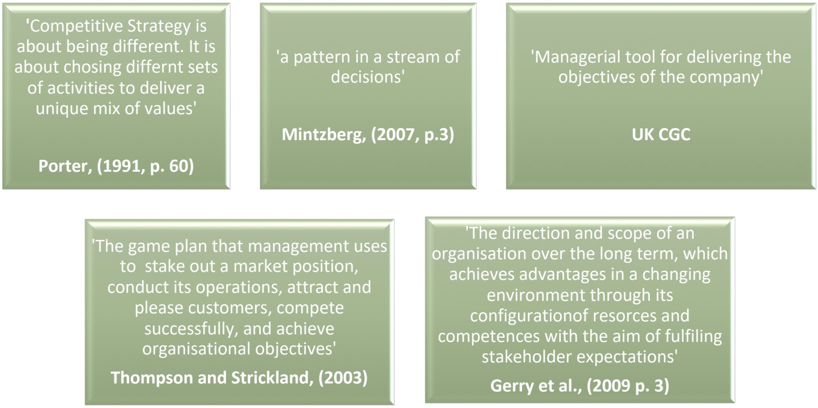


Figure 2.1 Definitions of Strategy

2.3.1 Levels of Strategy in an Organization

Strategies can exist at three main levels inside the organization, and these include the corporate level Strategy, business level Strategy, operational or functional level Strategy, financial Strategy and so on. Wright et al. (1998) discussed different strategic levels of action: corporate Strategy, business unit Strategy and functional Strategy. However, this hierarchical view does not necessarily represent the way Strategy is formulated (Slack et al., 2010)

2.3.1.1 Business Unit Strategy:

The strategic business unit is the next level after corporate-level Strategy, originally conceptualized for diversified companies. A business unit is an organizational sub-system, which has a market niche, competitors and organizational mission and goals diverse from other organizational subsystems in the same firm (Wright et al., 1998). This level of Strategy is about how to compete successfully in particular markets. The business level Strategy identifies and builds the strength the business needs in its long term competitive position in the marketplace. It is argued that achieving competitive advantage allows a business to differentiate its products or services from those of competitors to increase market share.

Business Strategy is sometimes called ‘competitive Strategy’ (Johnson et al., 2009). This includes issues such as pricing Strategy, cost leadership and innovation or differentiation, response to competitors’ moves etc. Strategic decisions relate to particular strategic business units (SBU) within the overall organization. Each SBU has a distinct external market for goods or services that is different from another SBU. However, it is argued that business-level strategies should not be disclosed as it directly impacts the survival of an organization against rivals, and such a disclosure would mean giving out business intelligence on a platter of gold.

2.3.1.2 Operational / Functional Strategies

Operational strategies are concerned with how the component of an organization deliver successfully the corporate-level and business-level strategies in terms of processes, people and resources (Johnson et al., 2009). Generally, because successful business strategies depend to a large extent on decisions that are taken or activities that take place at the operational level, operational strategies are vital to successful strategy implementation. Examples of operational strategies include a decision to raise external finance to fund rapid growth, possibly geared towards meeting investment needs. In their study, Pagliarussi and Liberato (2011) discussed the levels of Strategy, and observed that the disclosure with operational Strategy content occurs less frequently than corporate Strategy disclosure. Pagliarussi and Liberato (2011) argued that since the literature clearly indicates that operational Strategy is a way of creating competitive advantage, investors would be expected to know how to interpret operational Strategy disclosure in the valuation of their investment options.

2.3.1.3 Corporate Level Strategy:

Corporate strategy is concerned with “the overall purpose and scope of an organization and how value will be added to the different parts (business units) of the organization” Johnson et al. (2009, p.7). Thus, corporate-level Strategy is conceived in terms of variation in the portfolio of industries in which a firm does business (Beard and Dess, 1981) and in addition, according to

Hofer and Schendel (1978), the operational measures of resource deployment among businesses. Examples include; issues of geographical coverage, diversity of products/services or business units, acquisitions of new businesses, mergers, consolidation, and how resources are allocated between the different parts of the organisation.

Most firms have simple corporate-level strategies, as they compete in only one industry among hundreds that are possible. Other firms however, such as the FTSE 100 largest firms on the London Stock Exchange, typically participate in several industries, and their top managers must contend with the varied and conflicting demands of their industrially specialized subunits (Beard and Dess, 1981). Hill and Jones (2011) stress that the clarity of corporate Strategy is important, and a disclosure of corporate-level Strategy should give an insight into the activities of the company and explicitly stating how shareholder value would be enhanced. Additionally, Johnson et al. (2009) contend that corporate-level Strategy is likely to be concerned with the expectations of owners - the shareholders and the stock market. This expectation could be implicitly or explicitly reflected in a statement of 'mission'.

2.4 BM

According to Teece (2010) a BM describes the design or architecture of the value creation, delivery and mechanisms a business enterprise employs. Put in other words, Osterwalder and Pigneur (2010) described BM as the rationale of how an organisation creates, delivers and captures value. The essence of a BM is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit. Magretta (2002) asserts that a firm's BM sets the economic logic of how the organization Strategy can create value for the customers at an acceptable price with reasonable profit. In a report, ICAEW (2010) argues that what a firm does internally and what it does through market transactions are described by its BM. Thus, a company's BM relates to how and why a company's product and offerings can generate attractive revenues and still create value for customers.

Further, Magretta (2002) argued that creating a BM is like writing a new story, which at some level is a variation on the generic value chain underlying all businesses. Accordingly, Stefanovic and Milosevic (2012) pointed out that a BM could be seen as a generic value chain underlying business. This chain has two parts. The first part includes all the activities associated with making something that satisfies an unmet need. The second part involves all activities focused on selling what was made in the first place. Thus, from the activity-based perspective, it can be argued that a BM defines the structure of the value chain (Zott and Amit, 2009). Put differently, Amit and Zott (2001 p. 511) contends that the BM can then be defined as 'the structure, content, and governance of transactions' between the focal firm and its exchange partners. Therefore, the overall objective of a BM is to exploit a business opportunity by creating value for the parties involved (Zott and Amit, 2009). In essence, a BM performs two important functions: value creation, i.e. a series of interrelated activities within a firm, and value capture, i.e. a firm earning a profit from some portion of its activities (Chesbrough, 2007).

In their study Zott and Amit (2008) distinguished between two types of BM characterized by their design themes, which capture the common threads that orchestrate and connect the focal firm's transactions with external parties. Zott and Amit (2008) contend that the design themes are not mutually exclusive: several design themes may be present in any given BM. Novelty-centered BMs refer to new ways of conducting economic exchanges among various participants. The conceptualization and adoption of new ways of conducting transactions can be achieved, for example, by connecting previously unconnected parties, by linking transaction participants in new ways, or by designing new transaction mechanisms. Efficiency-centered BMs refer to the measures firms may take to achieve transaction efficiency (i.e., reduce transaction costs for all participants); they do not refer to the outcome (efficiency) itself. The essence of an efficiency-centered BM is the reduction of transaction costs (Williamson, 1975).

In addition, (Magretta, 2002) contents that a powerful BM should pass two tests.

1. The narrative test: The BM should tell a logical story about who your customers are, what they value, and how you'll make money providing them that value. The story plot may turn on one of two links in the generic business value chain: making something that satisfies an unmet need; or, selling something in innovative ways.

2. The numbers test: A BM's story holds up only if you tie assumptions about customers to sound economics-the P&L must add up.

More importantly is clarity about a BM. It can be used as a basis for employee communication and motivation. It can be used to get everyone in the organisation aligned around the kind of value the company wants to create (Magretta, 2002). Further, there are various approaches and categorisations of structures, or elements comprising a BM as pointed out by Amit and Zott (2001) such that it is up to an individual to make a choice regarding the underlying logic of a BM (see also Shafer et al., 2005; Voelpel et al., 2005; Osterwalder and Pigneur, 2010). On the other hand, Magretta (2002) emphasized the importance of fitting all the elements of a BM into a working hole as a valuable planning tool.

In essence, successful BM provides a guide to managers on how the entire business system will work, with every decision, initiative, and measurement providing valuable feedback (Magretta, 2002). A BM is like a financial forecast. A profit and loss statement and a balance sheet forecast. A financial forecast is as good as the assumptions that go into computing the figures. A forecast must be continuously monitored and compared to actual for variance and corrective actions taken as soon as it is necessary. Profits give an indication that your BM is working. If expected results are not achieved, a re-examination of the model is necessary.

Stefanovic and Milosevic (2012) stressed that a firm with a distinct BM that creates more value than that of its rivals' holds a potential advantage. Consequently, a BM may affect a firm's performance outcome (Zott and Amit, 2008). Hence, the final concept of the 'BM' ought to be unique in some manner so that a firm can achieve competitive advantage. On the other hand, Teece (2010) argues that a BM (no matter how novel) is not capable of assuring competitive advantage. Once implemented, the gross elements of BMs are often quite transparent and (in principal) easy to imitate.

A review of the literature on BM shows that the term 'BM' is broad and trying to define it, one risk either giving such a general definition that the result is musky at best (Porter et al., 2001) or one includes too many elements in it, resulting in a definition that is not only unclear, but also difficult to understand and communicate. In order to enhance a fair and understandable disclosure of the BM of an entity, Giunta et al. (2014) developed a framework for the disclosure of BM based on the four main areas of the BM.

Lastly, Beattie and Smith (2013) made an attempt to link the key features in the literature of strategic management on BM to contemporary debates on narrative reporting. In their study, (Beattie and Smith, 2013)concluded that the BM concept offers a powerful overarching concept in the strategic management literature that can usefully inform business reporting debate.

2.5 The nature of the interaction between Strategy and BM

(Hill and Jones, 2011) described competitive advantage as the advantage over rivals achieved when a company's profitability is greater than the average profitability of all firms in the industry. On the other hand, sustained competitive advantage is achieved when a company is able to maintain above-average profitability for a number of years. Teece (2010) argues that a BM (no matter how novel) is not capable of assuring competitive advantage. Once implemented, the gross elements of BMs are often quite transparent and (in principal) easy to imitate. According to Magretta (2002) the flip side of Strategy formulation is a company's BM. Even though some people use the term interchangeably, a firm's BM describes how the components of the business as a system fits together but does not factor the critical dimension of performance competition. One explains who your customers are and how you plan to make money by providing them value; the other, how you'll beat competitors by being different. Stefanovic and Milosevic (2012) stressed that for a long time the primary focus of academics and practitioners in developing competitive advantage of a firm has remained on Strategy. Further, Hill and Jones (2011) argued that companies like Walmart, Southwest, and Dell computers have had a significant and sustained competitive advantage because they have pursued firm-specific strategies that result in superior performance. According to Porter (1991) the final determinant of advantage is firm Strategy, structure, and rivalry, or the context for competition in a region or nation. The national and local environments have a strong influence on management practices, forms of organization, and the goals set by individuals and companies.

To ensure the protection of competitive advantage over the design and implementation of new BMs, coupling Strategy analysis with BM analysis is important. Teece (2010) argued that selecting a business Strategy is a more granular exercise than designing a BM. Coupling competitive Strategy analysis to BM design requires segmenting the market, creating a value proposition for each segment, setting up the apparatus to deliver the value, and then figuring out the various 'isolation mechanisms' that can be used to prevent the BM/Strategy from being undermined through imitation by competitors or disintermediation by customers. Teece (2010) stressed that unless the BM survives the filters which Strategy analysis imposes, it is unlikely to be viable, as many BM features are easily imitated. Hence, having a differentiated and hard-to-imitate, but at the same time effective and efficient architecture for an enterprise's BM is important to the establishment of competitive advantage.

On the other hand, the BM can be a source of competitive advantage that is distinct from the firm's product market position (Teece, 2010). Firms that address the same customer need, and pursue similar product market strategies, can do so with very different BMs. A firm with a distinct BM that creates more value than that of its rivals holds a potential advantage. All other things being equal, it has the possibility to capture more value for its shareholders. According to Zott and Amit (2008) product market Strategy differs from the BM mainly through its focus on the positioning of the firm vis-a`-vis its rivals, whereas the BM is a structural construct that centres on the pattern of the firm's economic exchanges with external parties in its addressable factor and product markets. Zott and Amit (2008)argue that the BM is a valid and distinct construct from received notions of a firm's product market Strategy. Stating that because the BM, as a source of value, can help explain why some firms outperform others, it provides a rationale for value creation and appropriation that is distinct from (but may interact with) the firm's product market Strategy. They concluded that BMs and business Strategy are complements and not substitutes. In line with this argument, Veit et al. (2014) noted that the BM concept is the missing link between business Strategy and Information Technology (IT).

Additionally, Tikkanen et al. (2005) argued that the function of Strategy is to give a meaning and direction for the development of the company's BM. Put differently, (Mintzberg and Waters, 1982) contend that Strategy is a comprehensive pattern of a company's actions and intents binding together all the components of the BM. Therefore, towards the integration of BM and Strategy to enhance competitive positioning, Casadesus-Masanell and Ricart (2010) noted that BM refers to the logic of the firm, i.e. the way it operates and how it creates value for its stakeholders. However, they stated that Strategy is the choice of BM through which the firm competes in the marketplace (a BM can be seen as a reflection of the realized Strategy). Put differently, BM reflects how important elements in an organization are aligned, i.e. how the value is produced and delivered to the customers. If temporal dimension is induced into this picture, BM becomes a dynamic representation of organizational operating logic. It becomes an objective representation of the reality of the firm and its markets (Mason and Spring, 2011).

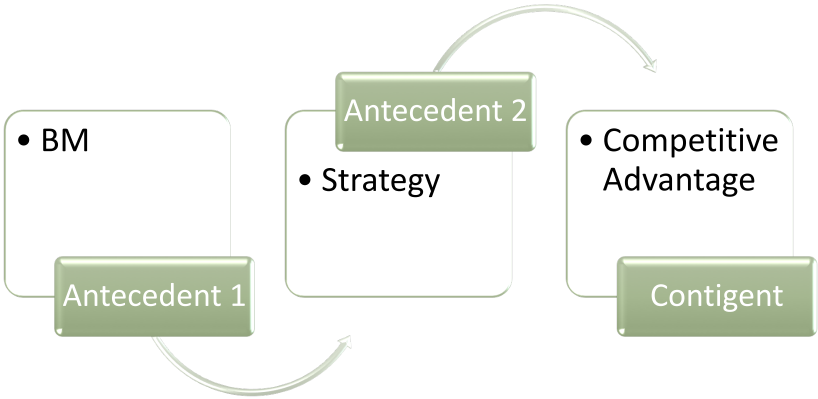


Figure 2.2 The strategic process of value creation

From the literature on BM and Strategy and their effect on competitive positioning, it could be concluded that the BM is fundamental to the design or architecture of a business, while Strategy is a tool to deliver the BM uniquely and in such a way that the economic value that proceeds from the value creation exceeds the investment made. However, competitive advantage is dependent upon how well a BM and Strategy is integrated. Thus, BM and Strategy could be seen as complements and not substitutes.

Magretta (2002) asserts that all the activities of Strategy – competitive advantage, low cost provision, product differentiation, segmentation and the development of competitive capabilities are aimed at achieving superiority over rivals by attracting and satisfying customers. If a company fails to meet its expected results, it would go back to re-examine its model and Strategy, and make the necessary corrections. Strategy and BMs are fundamental to performance; such that no organisation can afford fuzzy thinking about these concepts. Therefore, it is argued that the decision to disclose BM or Strategy should be strategically considered.

2.6 Narrative Reporting and the Annual Reports

Narrative reporting has been established in the IASB framework as a crucial complement to the preparation and presentation of financial statements in the annual (IASB, 2001). Research has shown that the annual report is a good proxy for the level of voluntary disclosure a company provides across all different forms of disclosure, e.g. press releases, initial public offerings (IPOs), web sites, company brochures, newsletters (Gelb, 2002; Botosan, 1997; Lang and Lundholm, 1993). Earlier studies have primarily focused on examining the annual report.

2.6.1 The Development of Strategy and BMs Disclosures in the UK

This section concentrates on changes in financial reporting, particularly the changing role and content of narrative reporting, and how corporate governance has influenced financial reporting. Narrative reporting in the form of an operating and financial review (OFR) was initially introduced as a best financial disclosure practice for large listed companies in 1993 in the UK to promote user-friendly financial reporting. Further, in 2005, the UK government put the OFR on a statutory footing, emphasizing forward-looking statements and the use of an OFR Reporting Standard (RSI) consequent upon the requirements launched by the European Accounts Modernization Directive (2003/51/EC).

Further, in January 2006, the government removed the OFR from the statute and replaced it with a narrower “Business Review” in the directors’ report, based on best practice and not a mandatory RS. Although this development would not detract the requirement of making forward looking statements for the Business review in the directors’ report, it would however relieve the regulatory reporting burdens for the private sector. Critics of this decision argued that they consider the OFR a natural extension of management information, which can enhance information quality leading ultimately to expansion of shareholder value (Yeoh, 2010). However, nothing was mentioned the OFR and Business Review about Strategy and BM.

According to a report by the UK FRC, the UK has developed a market-based approach that enables the board to retain flexibility in the way in which it organizes itself and exercises its responsibilities, while ensuring that it is properly accountable to its shareholders (FRC, 2010b). This is done primarily through the UK Corporate Governance Code, which is maintained by the FRC. For the system to work effectively, shareholders need to have appropriate and relevant information to enable them to make the assessment of whether the company's governance practices are effective in underpinning the sustainable success of the company. The role of the FRC as regulators is to ensure such information is available. The UK Corporate Governance Code operates on the basis of the 'comply and explain' principle and is regularly reviewed in consultation with companies and investors. It is argued that the rationale behind the UK approach is that boards must ensure that the business is sustainable and take account of long-term consequences in setting its BM and strategies (FRC, 2010b).

In 2010, the UK Corporate Governance Code introduced a requirement for listed companies to disclose in their annual report their BM and Strategy for delivering corporate objectives (Combined Code, 2010) based on a 'comply or explain principle' (FRC, 2010b). The FRC believes that better regulation should be part of the framework for economic growth, directed at the next crisis rather than the last. Although the FRC stressed that excessive regulation could damage the spirit of innovation that the UK economy needs (FRC, 2010b).

Additionally, it is assumed that regulation should begin with strong corporate governance, stating that it is the role of shareholders and boards to scrutinize and ensure that their companies are being led in the right direction over the long-term. Stressing that encouraging transparency, accountability and long-term stability will promote healthy long-term growth. Further, The FRC stated that to enhance effectiveness, such framework need to be implemented in a way that fits the culture and organization of the individual company (FRC, 2010b) This can vary enormously from company to company depending on factors such as size, ownership, structure and the complexity of its activities. In line with this, (Beretta and Bozzolan, 2008) showed that the extent of forward-looking disclosure is positively associated with the size of the company. Also, it depends on the industry to which the firm belongs (thus evidencing a sort of bandwagon effect) and is positively associated with the firm's other form of disclosure offered in the period considered in the analysis.

Interestingly, in 2012, the UK government proposed a new framework for narrative reporting to include a strategic report, though similar to the business review, but quoted companies will be required to include a report on their Strategy, their BM effective from October 2013 (FRC, 2012b); Thus, moving towards a more mandatory disclosure. The FRC stated in the guidance draft "the description of an entity's strategies allows shareholders to assess the current and past actions undertaken by directors in pursuit of the entity's objectives and to predict the future developments in the business" (FRC, 2013 paragrph 6.35). This requirement is now part of the Companies Act, 2006. Further, the Act specifies that the purpose of the strategic report is to enhance the assessment of directors' performance of their duty (Company's Act, 2006; Section 414A). The Act requires that the strategic report should contain among others, a fair review of the company's business, and a description of the principal risks and uncertainties facing the company.

Although this requirement is now mandatory, the regulation did not define what is meant by Strategy and BM. This implies that the content of Strategy and BM information disclosed remains at the discretion of managers. In summary, this shows that there are three stages in the development of Strategy and BM in annual reports. The voluntary, Comply or explain, and the mandatory periods.

2.6.2 Strategy Disclosure in Annual Reports

According to Santema and Van de Rijt (2001) the commission on corporate governance in the Netherlands stimulates the disclosure of strategies and goals. However, Strategy disclosure is voluntary in the Netherlands, thus, decisions on whether to disclose, what to disclose and how much to disclose is largely up to the individual company (Coebergh, 2011a). Coebergh and Cohen, 2009; cited in Coebergh (2011a) highlight that there is a mixed view on the pros and cons of communicating Strategy among leaders of Dutch publicly listed corporations, such as; "It is impossible to share ambitions with others in a clear and understandable way". Also, evidence that some companies fear disclosure comes from the successful Dutch (family owned) retail firm Zeeman Groep, one of the largest 200 corporations in the Netherlands and with about 1,000 outlets, one of the largest chains in Europe for low-cost confecting clothing. In 2006, the CEO of Zeeman Groep said to the press that they stopped publishing annual reports and financial statements since 2004, risking regulatory fines, commenting "Because of competition we do not disclose too much public information".

More optimistic is the CEO of Dutch electronics corporation Philips, arguing on a CEO conference that transparency is beneficial for corporations, and that with transparency having made a new move, their decisions are being scrutinized by shareholders, regulators, employees, the press and others; as such, failure to disclose and dialogue, will create a void that will be filled with more fear and uncertainty (Coebergh, 2011a).

In a study, Santema and Van de Rijt (2001) investigated the extent to which Dutch firms disclose their Strategy in the Annual Report; the main finding of their study was that Dutch listed firms generally do not disclose a lot of information on their Strategy, firms' disclosures were more backward looking rather that forward looking. They also found that future oriented action plans were rarely disclosed. This research identifies the Executive/Managing Board Report as the location of Strategy information in the annual reports of retail banks in the Netherlands. Further, in their study, Santema et al. (2005) compared the disclosure of Strategy in the annual reports of companies from five European countries. These countries include: The UK, The Netherlands, Germany, France and Poland. They concluded that the size of a firm has a positive effect on Strategy disclosure. Also, that Polish firms disclose the least on Strategy. Interestingly, (Santema et al.) concluded that UK disclosed more on Strategy than others, except for Dutch firms.

Furthermore, Padia and Yasseen (2011) argued that although Strategy disclosure is voluntary in South Africa, South African listed companies generally disclose a lot on their Strategy. This conclusion is based on their finding that firms disclosed both information about past performance and future oriented information. However, they opined that the content of such disclosure would not necessarily be such that could put the companies in 'jeopardy', but there is a tendency to make sufficient disclosure to appease the stakeholders. Thus, the literature review shows that prior research on Strategy disclosure have been on voluntary disclosure, Whittington and Yakis-Douglas (2010) highlighted the need for further research on external Strategy disclosure, particularly in the case for public enforcement of such disclosures.

2.6.3 BM Disclosure in Annual Reports

There are very few studies about the disclosure of BM. In order to enhance a fair and understandable disclosure of the BM of an entity, Giunta et al. (2014) investigated the disclosure of BM in the annual reports of Italian companies. They developed a framework for the disclosure of BM based on the four main areas of the BM. They concluded that companies that use the term BM more frequently are rarely those which provide more information about the model's elements. They opined that this could be partly due to the ambiguity of the meaning of BM. Beattie and Smith (2013) made an attempt to link the key features in the literature of strategic management on BM to contemporary debates on narrative reporting. In their study, Beattie and Smith (2013) concluded that the BM concept offers a powerful overarching concept in the strategic management literature that can usefully inform business reporting debate.

Additionally, Melloni et al. (2016) investigates the informativeness of BM disclosure questioning whether companies adopt impression management strategies by manipulating the tone of the BM disclosures provided in their reports. Melloni et al. (2016) investigated the reports of firms from all the continents (Europe 54%, Africa 20%, America 17%, Asia and Australia 9%). They found that managers use BM disclosure as an impression management Strategy. Further, Bini et al. (2016) focused on the examination of BM disclosure quality, investigating the extent and nature of reporting BM constituent concepts. Bini et al. (2016) extended the BM disclosure framework proposed by Guinta et al., (2014). They focused on a sample of listed UK companies operating in the high-technology industries and used content analysis to investigate BM disclosure presented in the strategic report. Bini et al. (2016) concluded that companies rarely use BM disclosure to convey a cohesive story that highlights the interconnections among the different components of BM information disclosed. Bini et al (2016) stressed that these results might prevent stakeholders from understanding how companies create value, stressing that this might be influenced by the lack of specification of BM-component description provided in the FRC guidance. Thus, they stressed the need for the development of a detailed framework that clearly identifies the role of BM within business reporting.

2.7 The Relevance of Strategy and BM Disclosure in Annual Reports

The demand for disclosure on the performance of listed companies has increased in recent times (Healy and Palepu, 2001) and the failures of large companies listed on the most important stock exchanges have placed extra pressure on standard setters and listed companies for an increase in the quality of corporate reporting (Beretta and Bozzolan, 2008). Reporting information about Strategy and BM has been touted as a potential alternative to the (alleged) 'short-termism' of providing quarterly earnings (Richard Lu and Wu Tucker, 2012). According to Whittington and Yakis-Douglas (2010) there is a concern that the long-term strategies of firms are not being adequately understood to serve the long-term interests of both firms and economies more widely. Hence, they envisaged that Strategy communications would shift from the domain of voluntary disclosure towards more mandatory disclosure. They argue for a greater transparency of corporate strategies, note that very little research on Strategy disclosure exists even though it has been touted as a potential alternative to the (alleged) "short-termism"

Further, the disclosure of Strategy and BM could help to improve the quality of financial reporting. A guideline by the CICA (2001) emphasizes the importance of disclosing according to a strategic view of business. This framework suggests that accompanying narrative information concerning company vision (core business and long-term business Strategy); critical success factors; capabilities (resources) for achieving desired results; expected results; and connected risks and opportunities should be included in annual reports.

The quantity of information disclosed in the annual report and the richness of its content has been discussed in the disclosure literature (see Alberti et al., 2009). Beretta and Bozzolan (2008) defined richness as a function of both the width of the disclosures on different topics regarding a firm's BM and value-creation Strategy, and the depth of the disclosures about the presence of insights into a firm's future performance. The study demonstrates that disclosure quality captures dimensions of annual report disclosure that are considered useful by users (financial analysts) in forecasting earnings to support market participants in their economic decisions and in relation to the behaviour of financial analysts in revising earnings forecasts. Santema and Van de Rijt (2001) argued that Strategy disclosure has a positive influence on the quality of the annual report. (Santema and Van de Rijt, 2001) analysed annual reports of Dutch companies with respect to Strategy disclosure. The authors posited that the extent of Strategy disclosure presented in annual reports is positively related to disclosure quality. In line with this, in a report by ACCA (2008) the chief executive's review was considered more useful as it contains meaningful information on future Strategy compared to the chairman's statement. Thus, the impact of Strategy content on the value of the chairman's statement was emphasized.

Additionally, the disclosure of Strategy and BM could enhance investment decision-making. In their study, Beretta and Bozzolan (2008) examined the efficacy of disclosure in improving the capabilities of financial analysts to appreciate the value-creation Strategy and expected financial results of a firm. The study focused on the characteristics of forward-looking information used by financial analysts in analysing the fundamentals of a firm. Because one of the main tasks of financial analysts is forecasting future earnings, disclosure quality was defined in relation to the characteristics of information that can support the forecasting process. Following the adopted framework, disclosed information is considered quality information if it leads to better inferences from analysts and supports better estimates of future earnings.

More so, Santema and Van de Rijt (2001) stressed that future-oriented actions are most valuable for readers of annual reports. (Beretta and Bozzolan, 2008) suggested that the change in analyst forecasts is based on the quality of forward-looking information in annual reports as disclosure quality is associated with the percentage of change in earnings forecast and with the change in accuracy of earnings forecast. Also, the disclosure of BM makes visible how the company acquires and uses different forms of capital (intellectual, financial and physical) to create value (Beattie and Smith, 2013). Hereby, enhancing the assessment of management quality in terms of their ability to acquire, combine and utilise such resources. Furthermore, ICAEW (2010) argued that it is important to disclose BMs as this could provide an answer to the problem of the dispute over the proper limits of market prices – or fair value – in financial reporting.

On the contrary, Baginski et al. (2014) opined that a voluntary Strategy disclosure is likely to be less useful based on management control of the disclosure content and the timing of such disclosures, for example, company initiated investor and analysts' day presentations, as evidenced in Italian Companies. However, one would expect that the mandatory requirement that UK listed companies should disclose their Strategy and BM in the annual report gives discretion for the content of the disclosure but not the timing.

2.8 Benefits and Costs of BM and Strategy Disclosure

Ferreira and Rezende (2007) contended that the disclosure of corporate Strategy to the outside world is credible as managers are concerned about their reputation. Such disclosure induces the firm's management to undertake valuable Strategy-specific investments. In addition, Santema et al. (2005) argued that Strategy disclosure will have a positive impact on the international market scene. Similarly, Whittington and Yakis-Douglas (2010) stressed that considering recent theoretical understanding of sustainable competitive advantage as built on unique and inimitable resources (Barney and Clark, 2007)the threat of competitor exploitation of strategic disclosure is not necessarily severe. In line with this argument, the chief executive of the Financial Services Authority, a United Kingdom regulator, Hector Sants, who placed some of the blame of the recent financial crisis on poor oversight by financial analysts and institutional investors of the strategies of the major financial institution enjoined financial analysts and institutional shareholders to pay more attention to Strategy (Financial Services Authority, 11 March 2009). Also, that these Strategy communications are influential factors in how stakeholders value a firm's potential.

Bettis (1983) stated that though disclosure may bring a competitive reaction, it might also bring some reduction in the cost of capital. Further, (Beretta and Bozzolan, 2008) argued that though the disclosure of forward-looking statements, such as the stage of implementation of business strategies, among others, in annual reports offer a picture of the firm through the eye of management to financial analysts, but may bear proprietary costs by damaging the firm's competitive positioning. In addition, in their study, (Ferreira and Rezende, 2007) support the literature that suggests that managers face a trade-off when deciding whether to disclose their private information to outsiders. On one hand, by disclosing their intentions, managers become reluctant to change their minds in the future. This may lead them to make inefficient project implementations decisions.

On the other hand, information disclosure about corporate Strategy provides strong incentives for management of the firm to undertake Strategy-specific investments. They however concluded that these disclosure decisions do not support mandatory disclosure provisions. Thus, under a mandatory provision, shareholders might not be able to benefit from managers' discretion to disclose decisions. Beretta and Bozzolan (2008) contended that the extent (quality) of disclosure depends on the industry to which the firm belongs.

Similarly, in their study, Casadesus-Masanell and Zhu (2013) argued that innovative BMs can provide the basis for sustainable business success. Stressing that just as product and process innovations are hard to protect, BM innovations can be imitated. Thus, concluded that there should be a disclosure Strategy of whether to reveal new BMs (reviewed BMs) or instead conceal it by adopting the traditional, established logic of value creation and value capture to minimize the possibility of competitive imitation. In essence, the required disclosure of BMs could limit the innovation of BMs, especially when such innovations cannot be protected. Therefore, the appreciation of the disclosure offered by a firm requires the adoption of a multidimensional framework that jointly considers not only how much is disclosed (quantity of disclosure) but also what and how it is disclosed (FASB, 2001b).

2.9 Chapter Summary

This chapter discussed the conceptual framework of the study, which includes Strategy, BM, and financial reporting/disclosure. It also reviewed the literature on Strategy and BM disclosure. It showed that there are different levels of Strategy: business level Strategy, functional or operational level Strategy, and corporate level Strategy, among others. The business level Strategy is directly concerned with competitive positioning; the operational level Strategy links the corporate level and business level Strategy ensuring that the system functions integrated; corporate level Strategy deals with how to increase long-term profitability, direction and resource distribution. Hence, it is argued that the clarity of corporate Strategy is important as it could enhance competitive advantage. However, it appears that corporate level Strategy gives an insight into how stakeholder value would be enhanced and therefore should represent the 'width' of Strategy. Second, this chapter showed that the BM describes the design of value creation and value capture (the act of making profit from value creation). Thus, the chapter concluded that BM and Strategy are complements and not substitutes.

The literature has shown that corporate disclosure whether voluntary or mandatory, in other words, transparency has the capacity to reduce information asymmetry and improve corporate governance. Most importantly, the value relevance of the disclosure of Strategy and BM particularly; consequent upon the need to increase the quality of annual reports, following the financial crisis has also been highlighted in the literature. However, this chapter argue that the costs and benefits of Strategy and BM disclosure have to be weighed against each other.

The next chapter discusses the theoretical lens adopted in this study to explain the disclosure (non-disclosure) of Strategy and BM.

CHAPTER 3 THEORETICAL FRAMEWORK

3.1 Chapter Overview

In spite of the apparent recognition of the importance of communication of Strategy, there is no generally accepted comprehensive framework to understand the dynamics of communicating Strategy and BM (see Beretta and Bozzolan, 2008; Coebergh, 2011a). The aim of this chapter is to develop a theoretical framework through agency and signalling theory lens (Morris, 1987) that offers a richer appreciation of the complexities surrounding the disclosure of Strategy and BM in the annual reports of: banks, the food and drug retailers' sector; and the gas, water and multi-utilities sector, incorporated in the UK, and with operations on the UK main market.

'A theory is a model or system consisting of (a) non-contradictory, primitive assertions or axioms; (b) definitions of basic concepts; and (c) the conclusions or predictions which are deduced from them' (Morris, 1987 p.48). A theory's assumptions and definitions are its sufficient conditions that underlie the theory's conclusions. Different theories explain managerial incentives for discretionary disclosure. These theories include: agency, signalling, legitimacy and stakeholder theory among others (Merkl-Davies and Brennan, 2007). Within the scope of this study, agency theory and signalling theory help to understand why companies use discretionary disclosure to reduce information asymmetry. Information asymmetry can be reduced through two types of information: information about quality and information about intent. Research on information asymmetry (such as agency theory) about behaviour and intentions majorly examines the use of incentives as mechanisms for reducing moral hazards as a result of individual's behaviour (see Jensen and Meckling, 1976; Ross, 1973). In contrast, signalling theory focuses on understanding how parties resolve information asymmetries about latent and unobservable quality (see Connelly et al., 2011).

Further, it is suggested that research into accounting narratives would benefit from the use of theoretical pluralism (see Beattie, 2014). However, while combining theoretical lens, it is important that the underlying assumptions of each theory are not too distant (Okhuysen and Bonardi, 2011).

Agency theory states that agents act merely out of self-interest, and therefore incentives have to be offered that motivate them to adjust their aims to those of the company (Jensen and Meckling, 1976). While signalling theory posits that managers of above average firms have incentives to signal their quality and differentiate themselves from managers of below average firms (see Morris, 1987).

This chapter is structured as follows: The first section discusses agency theory and how agency problem is potentially resolved, then signalling theory is discussed. This is followed by the discussion of the justification for combining the two theories. Thereafter, the relevance of both agency and signalling theory to this current study is discussed, illustrated with a theoretical framework.

3.2 Agency Theory

Agency theory is concerned with the principal-agent problem in the separation of ownership and control of the firm (Jensen and Meckling, 1976). However, two problems arise as a result of this separation and delegation. First, when the desires or goals of the principal and agent conflict and it is expensive for the principal to verify what the agent is actually doing; second, when the principal and the agent may prefer different actions because of the difference in risk preferences (Eisenhardt, 1989). Thus, these separations produce conflicts. The focus of agency theory is therefore on resolving these two problems.

Agency theory demonstrates that resolving these conflicts incur agency costs, hence the need for incentives to reduce the agency costs (Morris, 1987). Put differently, agency theory is concerned with resolving agency problem – how the agency costs arising from the delegation of decision-making rights are minimized (Armstrong et al., 2010). According to Jensen and Meckling (1976) agency costs arising from the separation of capital providers from control include the loss in the firm's value (agency costs of equity) when shareholders find that managers are not pursuing shareholders' interest, especially where managers act inefficiently or do not choose projects as profitable as shareholders would like; as well as bonding and monitoring costs. The agency costs of equity are a manager's opportunity loss, if not reduced by monitoring and bonding, because of the manager's self-interest, and a way of avoiding this kind of costs is that shareholders build them into the firm's share price (see Morris, 1987). Thus, there is a trade-off between the two categories of agency costs.

On the other hand, agency theory assumes that equity holders bear the agency costs of debts (Morris, 1987; Armstrong et al., 2010). These costs could be in form of: excessive pay-out as dividend, risky investment decisions, the issuing of senior ranking debt, asset substitution, bankruptcy and reorganization costs (Smith and Warner, 1979); or the costs of monitoring and bonding. Debt holders or creditors anticipate such actions and will either price protect their claims to reflect the potential losses or choose not to lend. Thus, the agency costs are opportunity costs to equity holders if monitoring and bonding (governance mechanisms) are not used to reduce the manager's ability to annex wealth from debt holders.

3.2.1 Governance Mechanisms

Researchers have focused on identifying situations in which the principal and the agent are likely to have conflicting goals and then describing the governance mechanisms that limit the agent's self-serving behaviour (Eisenhardt, 1989), that is, monitoring and bonding devices. In other words, describing 'why certain contractual relations arise' (Fama and Jensen, 1983, p.326). Two propositions capture the governance mechanisms which are identified:

3.2.1.1 Outcome-based contracts

When the contract between the principal and the agent is outcome based, the agent is more likely to behave in the interests of the principal: The argument is that outcome-based contracts are effective in curbing agent opportunism and aligning the preferences of agents with those of principals because both of them depend on the same actions, hereby reducing the conflicts of self-interest between agent and principal (see Jensen and Meckling, 1976). In their study, Jensen and Meckling described how the increase of managerial firm ownership reduces managerial opportunism. This also includes writing restrictive covenants in debt contracts, and management bonus plans geared towards reported profits (Morris, 1987).

3.2.1.2 Information Systems

The second proposition is that information systems also reduce agent opportunism. The argument is that the availability and accessibility of relevant information at the disposal of the principal to verify the agent's behaviour is more likely to ensure that the agent behave in the interest of the principal. This includes the production of accounting reports (see Morris, 1987). Additionally, Fama and Jensen (1983) described the information role that boards of directors play in controlling managerial behaviour. Fama

(1980) illustrated the information effects of efficient capital and labour markets on managerial opportunism.

3.3 Signalling Theory

Signalling theory was first developed by Spence (1974) to explain behaviour in the labour markets but can help to explain voluntary disclosures (see Watson et al., 2002; Watts and Zimmerman, 1986). Signalling is concerned with a reaction to informational asymmetries in markets. The issue is that companies have information that investors do not have, this creates an information gap. This information gap or asymmetry can be reduced if the party with more information signals to others.

In line with the signalling argument above, accounting information plays two important roles in market-based economies (Beyer et al., 2010). First, capital providers such as shareholders and creditors are able to evaluate the return potential of investment opportunities (resulting in an ex-ante or valuation role if accounting information). Secondly, using accounting information, capital providers are able to monitor the use of their committed capital (resulting in an ex-post role of accounting information). However, if capital providers cannot fairly assess and evaluate the profitability of the firm's investment opportunities, as a result of agents' incentives to exaggerate their firms' profitability, they will under-price firms with high profitability and overprice firms with low profitability, this is otherwise known as adverse selection, which could potentially lead to market failure (Healy and Palepu, 2001; Beyer et al., 2010). Adverse selection occurs when principals cannot verify the value of the agent's work due to their own lack of expertise in evaluating it (Eisenhardt, 1989; Varela, 2017).

The costs arising from the problem of information asymmetry in form of opportunity loss for raising equity and debt capital are borne by the manager of the high profitability firm because less would be paid for the firm's equity or debt securities than would be paid when there is no information asymmetry (see Morris, 1987). In this case, managers of higher quality firms will wish to distinguish themselves from lower quality firms through voluntary disclosures (Watson et al., 2002) because they have an incentive to signal above average quality to reduce this opportunity loss. Ross (1973) opined that quality refers to the unobservable ability of the organisation to earn positive cash flows in the future, which may be signalled by financial structure and/or managerial incentives

However, it is important for the signal to be credible in order to achieve a successful quality signal. Quality of information in signalling theory is a general phenomenon applicable in any market with information asymmetry, and it could be described in terms of a firm's expected value, its risk, and the level of manager's compensation (see Morris, 1987).

Verifiability of the quality of the firm establishes credibility in the long-run. It is assumed that the identification of any attempt of false quality signal would mean that no subsequent disclosures will be seen as credible (Watson et al., 2002). Further, agents naturally aim to mitigate the probability of being fired for inadequate performance (Varela, 2017).

In social and environmental reporting, another theory that is very similar to Signalling theory is Greenwashing theory. Greenwashing is a form of selective disclosure whereby companies disclose positive organisational actions while concealing negative ones to create a misleadingly positive impression of overall performance (Lyon and Maxwell, 2011). Both theories assume that there are costs associated with disclosure (Verrecchia, 1983). Both theories also assume that benefits will accrue to 'good' corporate citizens and stakeholders will punish 'bad' corporate citizens (Clarkson et al., 2008). However, a significant difference is that while signalling theory considers that the 'good' corporate citizens will be more willing to voluntarily disclose their private information than the 'bad' corporate citizens because of the costs imposed by the society on those who do not disclose honest information. Greenwashing theory assumes that the 'bad' corporate citizens accrue more benefits and would be willing to disclose more voluntary information than the 'good' corporate citizens, although not necessarily honest information (Clarkson et al., 2008). Some of these benefits include; consumer loyalty and better attraction and retainment of employees (Marin et al., 2009; Greening and Turban, 2000). The focus of this study is not on social and environmental disclosure; as such greenwashing theory will not be explored to explain the disclosure or non-disclosure of strategy and BM.

3.5 Connecting Agency and Signalling Theories (Theoretical Pluralism)

From the discussion of agency and signalling theories it can be seen that there is considerable overlap between the two theories (see figure 3.1). Morris (1987) examined the possibility of overlap between the two theories, considering whether they are consistent, equivalent or competing. Although these two theories are consistent, they are not equivalent.

On one hand, though Jensen and Meckling (1976) opined that information asymmetry will not affect agency theory in large markets and where estimates are rational and errors are independent across firms. Morris (1987) contended that information asymmetry, a necessary condition for signalling theory is also implied by agency theory through the assumptions of positive monitoring costs and the separation of ownership and control of capital (see also Lan et al., 2013). Also, Ronen (1979) argued that moreover, because the incentive for adverse selection is as a result of information asymmetry, measurement errors will not be independent across firms.

Additionally, signalling theory is different from agency theory in that there are signalling costs, which have a negative relationship with the quality of information (Morris, 1987). Put differently, signalling theory extends agency theory by appreciating that the disclosure of valuable information such as Strategy and BM (Beretta and Bozzolan, 2008; Coebergh, 2011a) can help overcome information asymmetries, avoid adverse selection and reduce signalling costs. Therefore, agency and signalling theories are not equivalent, that is, one is not implied by the other (Morris, 1987).

On the other hand, signalling theory recognizes the separation between ownership and control and also the motivation of managers to disclose more information due to market pressures (Ross, 1973). Also, Morris (1987) stressed that both agency and signalling theory assume that market participants are rational wealth maximisers. Furthermore, the signals through the disclosure of more valuable information such as Strategy and BM might be consistent with monitoring and bonding devices in agency theory such as management compensation, dividend constraint, contractual debt covenant etc. (see Morris, 1987).

Often, management compensation plans specify a threshold profit level below which no bonus would be paid. However, a better-quality manager may negotiate a higher threshold profit level to differentiate themselves from lower quality managers. Managers also have an incentive to offer protective debt covenants to increase the price at which debt is sold, and indirectly signal about expected future earnings and expected levels of management compensation (Healy, 1985). Research linking compensation and disclosure is however limited (Nagar et al., 2003). While, research linking debts with disclosure conclude that because firms with more debts incur more monitoring costs, they seek to reduce these costs by disclosing more valuable information in the annual reports (Meek et al., 1995).

Therefore, it appears that managers may signal their quality and ability in identifying, measuring and managing their Strategy and BM, hence, distinguishing themselves from managers who may be perceived to have less clarity about their Strategy and BM. The signal could present competitive advantage and corporate capability in a competitive market and encourage or induce stakeholders to make some decisions which are beneficial to the corporation (Zhang et al., 2008).

Morris (1987) suggested that given this consistency between agency and signalling theory, it is possible to combine both agency and signalling theory to gain insights into why managers voluntarily disclose corporate information, because both theories provide companies with incentives to divulge information.

Table 3.3.1 Summary of agency and signalling theory assumptions

Agency Theory	Signalling Theory
All market participants are rational wealth maximisers.	All market participants are rational wealth maximisers.
All firms operate in two periods. Managers make production/investment decisions in the first period which affects the firms' expected values and variances in the second period.	All firms operate in two periods. Managers make production/investment decisions in the first period which affects the firms' expected values and variances in the second period.
Firms have external equity and debt financing.	The quality of firms competing for equity and debt funds in the capital market varies.
There is separation of equity and debt capital suppliers and managerial control in the firm, and	The actual quality of firms is objectively observable, ex post, in period 2.

agency costs arising from delegation of decision making.	
Each manager receives compensation by salary and other bonuses.	Ex ante, in period 1, information asymmetry exists between the manager of each firm and capital providers, and the manager's information is superior to that of capital suppliers.
Monitoring and bounding are available at a cost proportional to the value of the firm	Signalling costs are inversely related to quality.

Adapted: Morris (1987) Signalling, Agency theory and accounting policy choice

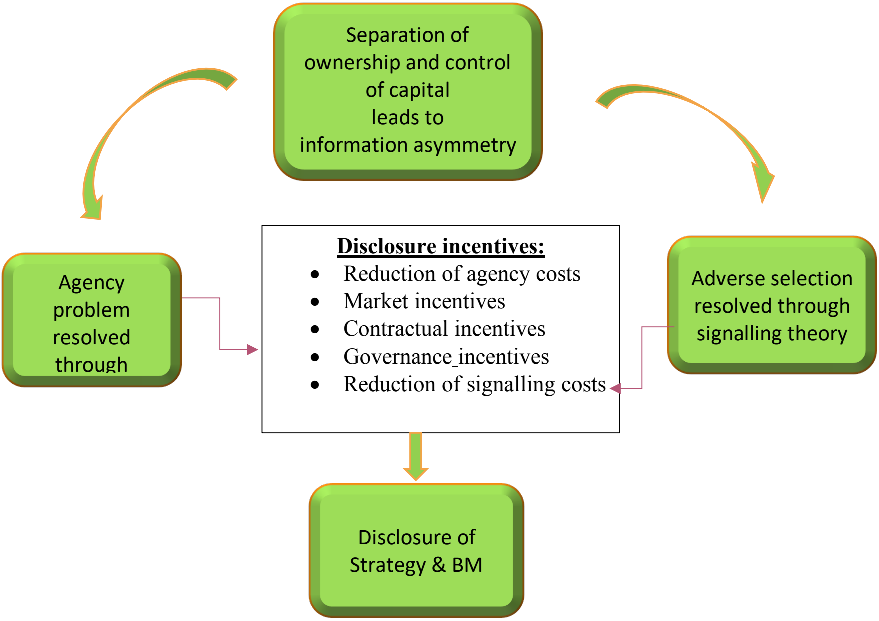
3.6 The relevance of the theories to this study

Agency theory and signalling theory may explain why managers voluntarily disclose information (Chow and Wong-Boren, 1987; Watson et al., 2002). Ronen (1979) criticized Jensen and Meckling (1976) for assuming that agency costs are always borne by agents/managers only, arguing that the presence of the incentive for adverse selection caused by information asymmetry prevents measurement errors from being independent across firms. Morris (1987) extended the observation of Ronen (1979) by drawing out the difference in who bears agency costs between higher profitable firms (hereafter above firms) and lower profitable firms (hereafter below average firms).

Managers of above average firms bear the signalling costs, i.e., the opportunity loss for raising equity and debt capital, in form of less amount being paid for the firm's securities than would have been paid in the absence of information asymmetry and the resulting adverse selection (see Morris, 1987), they have incentives to signal their quality so that they can reduce signalling costs and differentiate themselves from lower profitable firms. However, Morris (1987) concluded that some agency costs of below average firms are borne by investors. If the market regards the below average firm as average quality, then the agency cost will be borne by the investor. However, if investors are able to deduce or identify that the firm is below average then they would include the cost in the price paid for equity and debt securities of below average firms, hereby the agency costs would be borne by the manager (Morris, 1987).

This study aims at investigating to what extent agency theory and signalling theory can explain the disclosure (non-disclosure) of Strategy and BM in corporate annual reports, considering the two governance mechanisms identified in agency theory (outcome – based contracts and information systems). In particular, it considers the availability (disclosure) of Strategy and BM information in the annual reports over the period of ten years, considering that agency theory assumes that if there is information availability and accessibility, the principal will be able to assess the performance of the agent. However, because the literature on Strategy and BM information considers these concepts as valuable information, this study combines signalling theory to explain the potential for managers (agents) of well performing firms to signal their performance through a better disclosure of these concepts, thereby enhancing the assessment of the profitability of their firm's investment opportunities. Further, this study considers the potential determinants of discretionary disclosure of Strategy and BM apart from profitability and regulations that reduce agency and signalling costs. These theories therefore help to explain the disclosure (or non-disclosure) of Strategy and BM in terms of cost and benefit trade-off.

Figure 3.1 Theoretical framework for the study



3.7 Chapter Summary

According to agency theory, managers would voluntarily disclose insider information to reduce information asymmetry and agency costs. They would provide more information if required to do so. Signalling theory however, assumes that good performance (good news) / quality is positively associated with better (more) disclosure, particularly valuable information that could enhance the assessment of the company’s performance and future prospects; such as information about their Strategy and BM. Agency and signalling theory are consistent, they complement each other, but they are not equivalent. Simply put signalling theory extends agency theory in understanding the discretionary disclosure of valuable information to eliminate or reduce adverse selection and signalling costs.

The Companies Act requires the disclosure of Strategy and BM in the annual reports of UK companies; however, the content of such disclosure remains at the discretion of managers. The aim of this study is to investigate what companies disclose as Strategy and BM, to what extent do they make such disclosure, and what are the potential determinants of such disclosures. As Eccles et al. (2002p. 192) remark `Why does better disclosure increase management's credibility in the eyes of the market? A management team that has confidence in both its own abilities and its Strategy will not shy away from telling the market its plans and how well it is doing today.

CHAPTER 4 HYPOTHESES DEVELOPMENT

4.1 Chapter Overview

This chapter discusses the relevant literature that could help with the development of hypotheses and the identification of potential determinants of Strategy and BM disclosure. Research on financial reporting generally suggests that Strategy and BM discussion are valuable and proprietary information (Coebergh, 2011b; Leung et al., 2015) and managers would be reluctant to disclose their private information about these two narratives partly because of competition. The discussion examines three categories of incentives that could influence the discretionary disclosure of both Strategy and BM. These include: contractual, market and corporate governance incentives (Smith and Warner, 1979; Armstrong et al., 2010).

Agency and signalling theories have been used to explain managerial behaviour (Merkl-Davies and Brennan, 2007). Agency theory assumes that the absence of those who have invested funds in the management of the business poses a potential threat (see Fama and Miller, 1972). This is so because the self-interested manager has incentives to make decisions that misappropriate the investors' funds (agency problem) as a result of information asymmetries arising from insider information. Thus, according to agency theory, managers would voluntarily disclose their insider information to reduce information asymmetry and agency costs (Armstrong et al., 2010). Signalling theory however, assumes that good performance (good news) is positively associated with greater disclosure (Merkl-Davies and Brennan, 2007). Hereby, managers may signal their quality and ability in identifying, measuring and managing their Strategy and BM, hence, distinguishing themselves from managers who may be perceived to have less clarity about their Strategy and BM.

Although the aim of mandated disclosures and disclosure regulations is to alleviate agency problem, several accounting observers opined that mandated disclosures are becoming increasingly irrelevant, because they do not force managers to reveal pertinent information (see Francis and Schipper, 1999; Lev and Zarowin, 1999b). The UK corporate governance code in 2010 required that listed companies should disclose information about their Strategy and BM in the annual reports. This requirement is based on a 'comply or explain' principle. In 2012 however, the UK Companies Act 2006 was amended and the disclosure of Strategy and BM became mandatory. Although the disclosure of these terms is mandatory, the content however remains at the discretion of managers. Hence, apart from regulation, the role of incentives in mitigating agency problem is a central theme in accounting research (Healy and Palepu, 2001). Managers' incentives to choose the content of narrative disclosure could be explained through agency and signalling theories (Hassanein and Hussainey, 2015). This chapter will discuss disclosure incentives under three categories. These include: contractual incentives, market incentives and corporate governance incentives.

4.2 Contractual Incentives

Financial capital is a key factor of production that gives rise to an array of complex contracting relationships among owners, managers, and creditors (Armstrong et al., 2010). The role of capital in resolving agency conflicts between managers/shareholders and creditors is well known (for example, see a survey by Roberts and Sufi, 2009). The fact that certain contracting parties possess superior firm related information at various times before and/or during the contracting relationship either create or intensify a wide range of agency conflicts. Nonetheless even when all contracting parties are equally informed, more efficient contracts can be written when there is less uncertainty about current or future business conditions (Armstrong et al., 2010). Healy and Palepu (2001) opined that one of the solutions to the agency problem is ‘optimal contracts’ between the investors (debt and equity) and the managers. These optimal contracts include compensation agreements and debt contracts.

Creditors have concerns that owner/managers’ actions could increase the risk or probability of their investment return (Jensen and Meckling, 1976; Myers, 1977). This could be in form of risky investment decisions or such pay-out as dividends or share repurchases. A way of avoiding this credit default is that creditors will naturally anticipate such actions and will either price protect their claims to account for potential losses (and monitoring costs), or choose not to lend (Armstrong et al., 2010). Thus, shareholders being aware that they bear the costs of these agency conflicts, have incentives ex ante, to use contracting mechanisms that reduce the manager’s ability to annex wealth from creditors, ex post, hereby, reducing agency costs and increasing the efficiency of the contracting process. The proxies examined for contractual incentives include leverage, losses and financial distress (see Armstrong et al., 2010; Ahmed and Courtis, 1999).

4.2.1 Debt Contract (Leverage)

Information asymmetries between borrowers and lenders are important with respect to debt contracting (Healy and Palepu, 2001). Besides information asymmetry, information uncertainty poses problems in debt contracting. This is so because the incomplete nature of debt contracts after managers and lenders enter into contracts with the same information creates a demand for mechanisms that allocate decision rights in the future, conditional on the realization of certain events, both foreseen and unforeseen (Armstrong et al., 2010). A debt contract constitutes a governance mechanism to the extent that creditor monitoring helps to align the interests of managers and shareholders (Jensen, 1994; Core et al., 1999). This study uses leverage as a proxy for debts (Wang et al., 2008).

Leverage can be measured as the amount of debt used to finance a firm's assets. Previous studies have suggested that agency costs are higher with firms that have more debts in their capital structures since potential wealth transfers from debt holders to shareholders and managers increase with leverage (see Jensen and Meckling, 1976; Fama and Jensen, 1983; Meek et al., 1995). Arguably, agency theory predicts that investors' information requirements increase with the agency costs of the firm (Jensen and Meckling, 1976). In other words, because more highly leveraged firms incur more monitoring costs, they seek to reduce these costs by disclosing more information in annual reports. Hence disclosure will be higher for firms with proportionately more debt because of increased potential for wealth transfer from debt holders to shareholders and managers Put differently, voluntary disclosures can be expected to increase with leverage (Meek et al., 1995).

Research findings on this relation are mixed. Meek et al. (1995) found a negative relationship between leverage and disclosure using samples of U.S., U.K. and Continental European companies. Coebergh (2011b) also found a negative but insignificant relation between leverage and Strategy disclosure in the Netherlands. Additionally, Camfferman and Cooke (2002) found a negative but insignificant relationship between gearing and disclosure in the UK. On the other hand, Prencipe (2004) found leverage to be significantly positively related to the extent of segment reporting, while Francis et al. (2005) concluded that industries with greater financing needs have higher voluntary disclosure levels. Ahmed and Courtis (1999 p. 51) also found that seven studies in the UK have reported a significant, positive relationship between leverage and disclosure.

Bradbury (1992) found a significant, positive relationship between leverage and voluntary disclosure for New Zealand firms.

However, other researchers such as: Chow and Wong-Boren (1987) for New Zealand firms, and (Leuz, 2004) for German firms found no relationship between leverage and disclosure. Based on the mixed findings above, the second hypothesis is non-directional:

H1. Leverage is associated with the disclosure of Strategy and BM.

4.2.2 Poor Performance (Loss)

According to signalling theory, managers of poor performing firms have incentives to reveal less information when firm performance is poor (Watson et al., 2002). In other words, well-performing firms have incentives to distinguish themselves from less profitable firms through higher voluntary information disclosure in annual reports, in order to raise capital on the best available terms (Foster, 1986; Cooke, 1989; Wallace et al., 1994). Furthermore, from the agency theory perspective, Singhvi and Desai (1971) argue that higher profitability motivates management to provide greater information because it increases investors' confidence, and ultimately, increases management compensation. Thus, managers of poor performing firms have incentives to make it harder for investors to uncover information that the managers do not want to affect their stock prices and compensation (Bloomfield, 2002). Companies may disclose less information in order to conceal the reasons for losses (Singhvi and Desai, 1971; Raffournier, 1995).

Additionally, Lang and Lundholm (1993) argue that the level of perceived information asymmetry between managers and investors determines the relationship between disclosure and profitability, or losses. Given this discussion, the second hypothesis is:

H2. Loss is negatively associated with the disclosure of Strategy and BM.

4.2.3 Financial Distress

Studies suggest that managers in financially distressed firms may deliberately avoid discussion about their future viability (such as Strategy and BM) in the absence of an optimistic outlook (see Boo and Simnett, 2002; Darrough and Stoughton, 1990). Boo and Simnett (2002) analysed management's perspective comments of 140 Australian public companies and concluded that financially distressed firms may omit information about managements' perspective comments when they do not have optimistic information to disclose. Furthermore, Tennyson et al. (1990) analysed the narrative disclosures in the annual reports of 23 matched sample of bankrupt and 23 non-bankrupt U.S. companies and find that healthy companies voluntarily disclose strategic information (such as internal operations, growth and expansion information) whereas financially distressed companies avoid the disclosure of such strategic information. Based on the discussion above, the forth hypothesis is:

H3. Financial distress is negatively associated with the disclosure of Strategy and BM.

4.3 Market Incentives

As discussed earlier, the information asymmetry between managers (insiders) and shareholders/lenders caused as a result of dispersed ownership and the separation from control raises an agency problem due to conflicting incentives (interests) between managers and shareholders/lenders (Healy and Palepu, 2001; Fama, 1970). Also, shareholders/lenders face an information problem when determining the value of investment opportunities and incentives because it is difficult to differentiate between the manager with the 'bad idea' and the managers with 'the good idea' causing an information or 'lemons' problem (Healy and Palepu, 2001). This can lead to a breakdown in the functioning of capital market (see Akerlof, 1970). Investors will value both good and bad news at an average level, if investors cannot differentiate between the two (realising the possibility that the managers with the bad 'ideas' will try to claim that their ideas are as valuable as 'good' ideas).

An efficient market assumes that security prices at any time 'fully reflect' all publicly available information (Fama, 1970). Managers would disclose private information only if it increases firm value (Watts and Zimmerman, 1986). Thus, investors make efforts, or pay others to identify mispriced stocks (using public data). Thakor (2014) finds that valuable firms, and those whose strategies investors are most likely to agree with, disclose less information in equilibrium**.** Listing age and analysts following are the variables examined under market incentives.

4.3.1 Analysts following

Research has shown that financial analysts play a valuable role in improving market efficiency (Barth and Hutton, 2000; Healy and Palepu, 2001). Managers perceive analysts as one of the most important groups affecting the share price of their corporations (Graham et al., 2005). On one hand, analysts have incentives to make optimistic forecasts and recommendations as long as the information provided generates trading volume and investment banking fees for their brokerage houses (Lin and McNichols, 1998).

On the other hand, studies have also shown that firms with more information disclosures have larger analysts following, and that analyst following is positively related to disclosure quality (see Lang and Lundholm, 1993; Brennan and Subrahmanyam, 1995), partly because analysts could be sometimes seen as external monitors of managers (Healy and Palepu, 2001; Jensen and Meckling, 1976). With training in finance and substantial industry background knowledge, analysts can track corporate financial statements regularly. They have often been involved in the discovery of corporate frauds in companies such as Compaq Computer, Gateway, Global Crossing Motorola (Zingales et al., 2007). The relationship information disclosure and analysts following is a two-way direction both can influence the other. As suggested above, one would expect a positive association between analysts following and Strategy and BM disclosure. Thus, the fourth hypothesis is:

H4. Analyst following is positively associated with the disclosure of Strategy and BM.

4.3.2 Listing age

The length of time a company has been listed on a capital market may be significant in explaining the variability in the disclosure of information (Haniffa and Cooke, 2002). Scholars have argued that younger firms have more reasons to disclose discretionary information, partly because they may need to raise additional capital at the lowest cost compared to older companies that may depend more on internal funds as a result of an established shareholder base (Choi, 1973). In addition, (Kim and Ritter, 1999) posited that the disclosure of non-financial information is important in the valuation of younger companies. Put differently, the disclosure of more information is pertinent for younger firms in order to reduce scepticism and boost investor confidence, as they may be perceived as riskier (Haniffa and Cooke, 2002). (Coebergh, 2011b) found a positive relationship between voluntary disclosure of Strategy in the Netherlands and listing age. As such the fifth hypothesis is:

H5. Listing age is negatively associated with the disclosure of Strategy and BM.

4.4 Corporate Governance Incentives

The phrase 'corporate governance' had been used by financial economists in the 1980's referring to agency problems that shareholders might encounter because directors knew more about the business than they did – information asymmetry (Tricker, 2012). According to Blair (1995 p.3) corporate governance could be defined as 'the whole set of legal, cultural, and institutional arrangements that determines what publicly traded corporations can do, and how the risks and returns from the activities they undertake are allocated'. Though, the development of corporate governance is global such that the suitability of a given theory for a particular country or group of countries at any point in time may differ, depending on the level of development in terms of corporate structure, or ownership groups, influenced by the evolution of the economy, legal framework and political climate, cultural and religious background; all of which affect the development and accommodation of corporate governance within a country's setting (Mallin, 2002; Solomon, 2007).

Corporate governance is essential in cases where there is a separation between ownership and control, especially in firms with diverse ownership (Rose, 2016). The value of good corporate governance rests on the presumption that 'best practice' is not well defined or, in fact, is public knowledge (Rose, 2016). Thus, corporate governance establishes the framework for efficiency and probity, and for firms' transparency and accountability. Corporate governance mechanisms are significant in explaining voluntary disclosure of information from agency theory perspectives (see Healy and Palepu, 2001). The UK adopts a 'comply or explain approach to corporate governance. The comply or explain principle was originally put forward by the Cadbury Committee as a practical way of establishing good corporate governance while avoiding the inflexibility of the 'one size fits all' hard law framework (see Sanderson and Roberts, 2013).

CEO's compensation and three board characteristics, namely; board composition, board size and active boards would be included as variables.

4.4.1 Compensation

Although management compensation is a contractual incentive, shareholders rely on an effective corporate governance system to achieve compensation related expectations. One of the mechanisms used to align management and shareholder interests among others include, the use of executive compensation plans that brings focus to shareholder value, however, more agency costs are incurred to satisfy this. According to Harris and Raviv (1979) compensation agreements are developed in situations characterized by a divergence of incentives between the two parties and asymmetric information (i.e., moral hazard) with emphasis on the possibilities of acquiring information (reduction of information asymmetries).

Shareholders mitigate the disclosure agency problem with incentive contracts based on performance measures that are informative about managerial disclosure activity (Nagar et al., 2003). Many formal management compensation plans specify some threshold profit level below which no bonus is paid to managers (Healy, 1985). One of the key functions of the compensation committee on the board is to design an executive pay structure to reduce agency costs, and to provide incentives for executives to work for the best interest of shareholders (Core et al., 1999; Conyon and He, 2011).

Prior research has largely ignored the disclosure agency problem (Nagar et al., 2003). Thakor (2014) found that improved corporate governance leads to lower executive compensation and more information disclosure. In their study, Nagar et al. (2003) linked stock-based compensation with disclosure, and concluded that stock based compensation is positively associated with disclosure. However, Barth (2003) argued against the findings of Nagar et al. (2003) raising concerns on the validity of the study's inferences about the effects of stock-based compensation. Barth stressed that their research design preludes obtaining direct evidence on whether stock-based compensation provides incentives that motivate managers to reveal their private information consistent with shareholder interests.

Agency theory assumes that if corporate governance is effective, executive compensation would be lower and disclosure will be higher (see Thakor, 2014). However, signalling theory assumes that CEO's with higher compensation would want to signal quality through higher disclosure (see Morris, 1987). Although, it is unclear whether more disclosure is always in the interest of shareholders (Baiman and Verrecchia, 1996). Aligning disclosure incentive and disclosure timing is another issue (Barth, 2003). Aboody and Kasznik (2000) find that managers opportunistically time disclosures to maximize the value of their stock option awards, which is contrary to the interests of existing shareholders. However, in the UK form 2013 companies are required to disclose their Strategy and BM in the annual reports. It appears that this development reduces the timing effect of disclosure. Due to the mixed findings, the sixth hypothesis is non-directional:

H6. Compensation is associated with the disclosure of Strategy and BM.

4.4.2 Board composition

The main role of the board is to monitor the decisions of the management (Fama, 1980)the second role is advising (Adams and Ferreira, 2007). Corporate boards typically consist of inside (executive directors) and outside directors (non-executive directors). Executive board of directors are full time employees of the firm, are corporate insiders. By working alongside managers, it may prove difficult for executive directors to also objectively monitor managers' actions (Fama and Jensen, 1983). The value of having outside directors on the board is partly derived from the directors' broad expertise in areas such as Strategy, marketing and operations among others (see Yermack, 2004). Outside directors are experienced professionals, such as CEO's and executives of other firms, university deans and presidents, former regulators and politicians, etc. Researchers opined that boards with a higher proportion of outside or independent directors will increase the quality of monitoring of management and limit managerial opportunism, as they are assumed to objectively protect shareholders' interests (Fama and Jensen, 1983; Chau and Leung, 2006)Since corporate disclosure policy and annual report is prepared by the board, a company board with a greater proportion of non-executive directors is in a stronger position to fulfill shareholder preferences for transparency and accountability (Gul and Leung, 2004).

Hence, the presence of non-executive directors may help improve the quality of financial statements (Peasnell et al., 2000; Marrakchi Chtourou et al., 2001). Forker (1992) investigates the relationship between voluntary disclosure and the percentage of independent directors in the board and found that there is a positive relation between voluntary disclosure and the percentage of independent directors in the board. On the other hand, some researchers found no significant relationship between the level of voluntary disclosure and board independence in developing economies (Haniffa and Cooke, 2002; Ho and Wong, 2001), while Barako et al. (2006) and Eng and Mak (2003) report a negative association between voluntary disclosure and board independence. Based on these mixed arguments, board composition (measured by the proportion of outside directors) the seventh hypothesis is non-directional:

H7. The proportion of independent directors on the board is associated with the disclosure of Strategy and BM.

4.4.3 Board size

The final decision reached in a large group is a compromise that reflects the different opinions of the group members (see Sah and Stiglitz, 1986; Sah and Stiglitz, 1991). This compromise is more challenging in larger groups because factions and coalitions form (O'Reilly III et al., 1989). Worse still, it is more difficult for a team to reach a compromise when dealing with complex issues (such as risky innovation projects). Additionally, (Cheng, 2008; Lipton and Lorsch, 1992) opined that as board size increases, directors are more likely to face coordination problems when exchanging and communicating information. Thus, suggesting that as board size increases, the inefficiencies outweigh the initial advantages.

On the other hand, some scholars posited directors bring diverse resources such as information, skills, and legitimacy, thus larger boards are more effective than smaller boards, as larger boards can make better collective decisions, hence, higher performance (Dalton et al., 1999; Dalton and Dalton, 2005). Furthermore, a contingency approach suggests that as firm size increases, the negative impact of board size as a result of differences is mitigated (Zona et al., 2013). Cerbioni and Parbonetti (2007) reported that board size including other governance-related variables strongly influence the quantity of information disclosed. Abeysekera (2010) concluded that larger board size can help boards to overcome skill deficiencies in making more discretionary disclosure related to future earnings. Based on these findings, the eighth hypothesis is:

H8. Board size is positively associated with the disclosure of Strategy and BM.

4.4.4 Active boards

A board that meets more often should be able to devote more time to issues such as Strategy and BM. More active boards (board diligence) as proxied by number of meetings may influence firm performance Vafeas (1999) hence the disclosure of Strategy and BM. A board that rarely meets may rashly approve management plans. Frequent board meetings would facilitate greater information sharing among directors (Laksmana, 2008). Directors would have to dedicate adequate time and resources to learn the issues at hand before board meetings in order to ensure effective board decisions (see Conger et al., 1998; Beasley et al., 2005).

It appears that there is no evidence on disclosure agency problem and active boards. Vafeas (1999) examined 307 firms over 1990-1994 and find that board meeting frequency is related to corporate governance and ownership characteristics in a manner that is consistent with contracting and agency theory. Based on the above discussion, the ninth hypothesis is:

H9. The number of board meetings is positively associated with the disclosure of Strategy and BM.

Hypotheses 10 and 11 relates to disclosure regulation and will be tested in chapter seven.

4.5 Disclosure Regulation

Disclosure requirements are part of the mechanisms that allow firms to commit to certain levels of disclosure and to improve the credibility of disclosed information (Healy and Palepu, 2001; Beyer *et al.*, 2010). Beyer et al. (2010) highlighted that regulators can enforce disclosures that shareholders cannot enforce on their own due to sanctions that are unavailable on private contracting, hereby reducing agency problem. Although there are benefits of voluntary disclosure, such as the reduction of information asymmetry among other, these benefits are not sufficient to justify mandatory disclosure (see Leuz and Wysocki, 2008). Also, as suggested by signalling theory, in order to reduce the effect of adverse selection and signalling costs, above-average firms voluntarily disclose private information about their true value, considering the costs of such disclosure. It is assumed that once these above-average firms disclose, investors adjust the price paid for non-disclosing firms to reflect a lower value (see Ross, 1979; Verrecchia, 1983 and Dye 1985). Thus, an economic justification of mandatory disclosure has to show that market solution is unlikely to produce a desirable level of disclosure.

In some cases, policies may arise alongside other regulatory interventions as substitutes or complements (see Weil, 2002). In other cases, mandated disclosure is applied in an area independent of other regulatory interventions. In the UK, the disclosure of Strategy and BM was initially a Corporate Governance Requirement (Combined Code, 2010). The disclosure became mandatory after the amendment of the Companies Act 2006, effective from 1st October 2013. However, although the disclosure is mandatory, it is without a detailed regulation. As such, the disclosure is viewed as a trade-off between costs and benefits – a strategic managerial decision involving complex interdependencies (see Beattie, 2014). Based on the discussion above, hypotheses 10 and 11 are:

H10: The Strategy and BM pre-corporate governance requirement and post resilience means are not equal

H11: The Strategy and BM pre-mandatory requirement and post resilience means are equal.

CHAPTER 5 METHODOLOGY

5.1 Chapter Overview

The previous chapter discussed the theoretical underpinnings (agency theory and signalling theory) that might explain the disclosure of Strategy and BM. However, a central assumption of this thesis is that ‘all theories of organisations are based upon a philosophy of science and a theory of society’ (Burrell and Morgan, 1979, p.1). When carrying out empirical research, a selection between the various research paradigms is required, including a choice of the philosophy of science and the scientific approach most appropriate for the specific research objective(s) (Hallebone and Priest, 2009). The aim of this chapter is to develop a methodological framework that offers a rich appreciation of the complexities surrounding the disclosure of Strategy and BM in the annual reports of banks, the food and drug retailers’ sector, and the gas, water and multi-utilities sector, incorporated in the UK, with operations on the main market.

The first section discusses assumptions that could help the understanding of social sciences. This includes the philosophical perspective that defines the nature of reality (Ontology) and the acceptable knowledge of knowing the reality, i.e., nature of knowledge (otherwise known as epistemology. Followed by explanations about the discussion of the alternative scientific approaches for research; specifying the most appropriate approach for the research objectives in this study. Next, the objectives of this current study were explained using the framework for research into accounting narratives proposed by (Beattie, 2014). Thereafter, the discussion of research method and research design employed for this study was explained. Lastly, it specifies the dependent and independent variables, and the models used to test the hypotheses.

5.2 Research Assumptions and Paradigms

When carrying out empirical research, a selection between the various research paradigms is required, including a choice of the philosophy of science and the scientific approach most appropriate for the specific research objective (Hallebone and Priest, 2009). According to Burrell and Morgan (1979) first, this involves the assumption about the very essence of the phenomena under investigation. This includes the philosophical study of being, existence, and reality, and issues regarding questions about the existence of entities, i.e., whether or not entities exist. Thus, for social sciences, the ontological concern is "whether the reality to be investigated is external to the individual – imposing itself on individual consciousness from without - or the product of individual consciousness; whether 'reality' is of an objective nature, or the product of individual cognition; or whether 'reality' is a given 'out there' in the world, or the product of one's mind" (Burrell and Morgan, 1979, p.1).

There are two aspects of ontology, i.e. two dimensions of analysis that underwrites different approaches to social sciences, namely: objective or subjective dimensions (Burrell and Morgan, 1979; Saunders, 2012). Objectivism implies that social entities exist in reality external to social actors (Saunders and Lewis, 2009). Hence, there is a separation between the researcher and what is being researched due to an assumption that social 'reality' has an independent experience prior to human cognition (Johnson et al., 2006). However, a subjectivist ontology implies that reality is a product of individual cognition or consciousness (Johnson et al., 2006). It stresses the importance of the subjective experience of individuals in the creation of the social world (Burrell and Morgan, 1979).

Closely associated with ontological issues are epistemological assumptions. These are assumptions about the grounds of knowledge – how one can sort out what is regarded as ‘true’ from ‘false’, about how one might begin to understand the world and communicate this knowledge to fellow human beings Burrell and Morgan (1979). Easterby-Smith et al. (2012) stressed that epistemology is about exploring the best ways of enquiry into the world. Saunders and Lewis (2012) consider epistemological assumption within four approaches to research: interpretivism, realism, positivism and pragmatism. This study adopts a pragmatic approach.

The pragmatic approach relies on an abductive reasoning that moves back and forth between induction and deduction. In this sense, inductive results from a qualitative approach can serve as inputs to the deductive goals of a quantitative approach and vice-versa. Thus, rather than discrediting the works of other researchers in other research paradigms, a pragmatic researcher search for a useful point of connection. Further, it is argued that the assumption of objectivity and subjectivity cannot be total. In other words, “complete objectivity” or “complete subjectivity” is impossible. Hence, a pragmatic approach emphasizes working back and forth the various frames of reference on an “inter-subjectivity” approach (Morgan, 2007). In addition, it is argued that the choice between whether knowledge is specific and context dependent or universal and generalizable is irrelevant. Rather, the issue is the extent to which knowledge gained through a method in a specific setting can be appropriately applied in other settings. Thus, the need to investigate whether knowledge gained can be transferred to other settings – “transferability” (Lincoln and Guba, 1985).

Thus, the pragmatist position calls for using “whatever philosophical and/or methodological approach that works for a particular research problem under study” (Tashakkori and Teddlie, 1998, p. 5). In other words, the pragmatic approach is about using whatever method is appropriate for the study. What is more important to this researcher is the nature of the research and not whether to use a qualitative or qualitative method (Morgan, 2007).Neither does the researcher hold a priori commitment to using mixed methods; all are compatible and potentially useful. Mixing may occur in a particular study if the researcher decides it will help make the data collection and analysis more accurate or the inferences more useful (e.g., Patton, 1988; Cook and Reichardt, 1979; Reichardt and Rallis, 1994). In addition, (Beattie, 2014, p.127) suggest that 'research into accounting narratives would benefit from the use of mixed methods'. This paradigm is therefore suitable for this current research, as the researcher is committed to using whatever method is appropriate for the study.

The first objective of this study is to develop a comprehensive disclosure framework to evaluate the content of Strategy and BM disclosures in annual reports, to explore disclosure contents in annual reports over a longitudinal period and investigate distinctive practices in the information content of Strategy and BM disclosures on an inter-company and inter-industry basis. This objective also involves assessing the extent of Strategy and BM disclosure and investigating the effect of regulation of such disclosure. The methodological issues of importance here are thus the concepts themselves; their measurement and the identification of underlying themes. Hence the concern is with the identification and definition of these elements. This objective particularly relates to the investigation of how the change of Strategy disclosure from the domain of voluntary disclosure towards a mandatory disclosure in the UK has been able to influence distinctive practices of Strategy and BM disclosures on a micro and meso level (see Burrell and Morgan, 1979). Second, this current study examines the possible determinants of Strategy and BM disclosure in the annual reports of UK companies. Here the focus is on the discovery of how the relationship between Strategy and BM and the disclosure by social actors can be expressed.

5.3 Framework for Narrative Disclosure Research

Beattie (2014) developed a framework for thinking about research on accounting narrative disclosure. The first objective of this study attempts to address the first and fifth questions in the framework. The fifth question in the framework relates to what should be reported, and studies here found that such research has influenced policy. For example, DeFond (2010) find that earnings quality research has impacted policy. In examining what should be reported, this current study develops a disclosure corpus for both Strategy and BM using the literature, guidelines from regulatory bodies, and a bench mark of disclosure content in annual reports for 2015, of companies included in this study. The understanding from the findings may be used to inform regulation (see Buijink, 2006).

Beattie (2014) posited that the first question 'what is reported' represents the core of the framework and are essentially descriptive in nature and focus on the topic content or the form of the narratives. Hereby the concern of such study is to explain the described practice, using a positivist, interpretive or critical approach. Further, methods adopted include content analysis, linguistic analysis and/or discourse analysis. This current study is a longitudinal study and uses both qualitative and quantitative content analysis. This first objective focuses on the topic content and quantity/level of disclosure, using qualitative content analysis technique. It explores the practice of Strategy and BM disclosure over a period of ten (10) years, incorporating periods before and after the introduction of regulatory requirements for disclosure.

The first objective further investigates the extent of disclosure, examines the significance of regulatory requirements on the disclosure of Strategy and BM, and the disclosure items of Strategy and BM in the annual reports for the voluntary and mandatory periods. The literature suggests that there is growing evidence that narrative disclosure is superior under a mandatory regime (see Aerts et al., 2013). Thus, the focus is to explore 'what is reported', comparing it with 'what should be reported' as developed in this study. Thus, the first objective of this study addresses the first and second empirical questions.

The second objective is related to the second question in the framework, and it addresses the third empirical question in this study. It attempts to explain the observed practice of Strategy and BM disclosure, and investigates the influence of contractual, market and corporate governance incentives on such disclosures at the meso level. Thus, this objective involves the development of hypothesis to test the relationships.

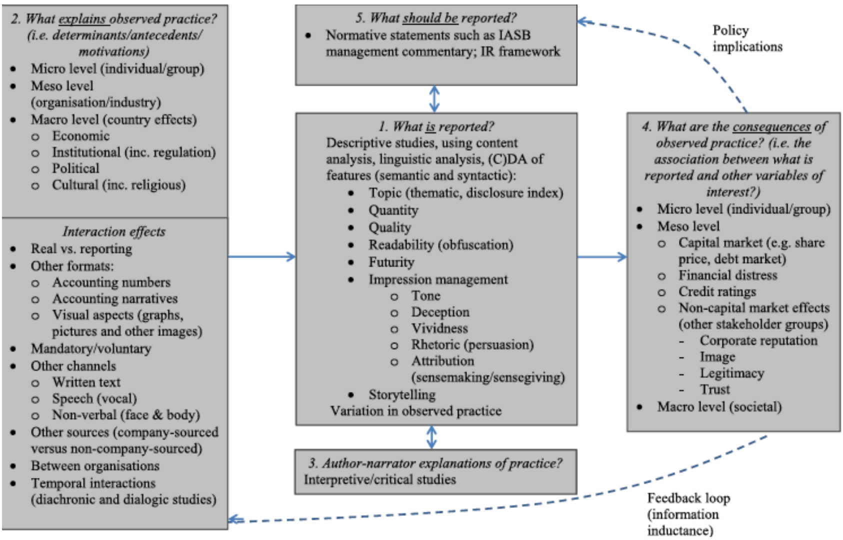


Figure 5.1 Framework for narrative disclosure research
Adapted from Beattie (2014, p. 126).

5.4 Research Design

Research design is a structure that guides the execution of a research method and the analysis of the subsequent data (Bryman and Bell, 2011). Bryman and Bell (2011) identify five types of research design: cross-sectional design; case study design; social survey design; experimental design; and longitudinal design. This study adopts a longitudinal design because it can allow some insight into the time order of variables and therefore may allow causal inferences to be made. 'The longitudinal design is a distinct form of research design that is typically used to map changes in business and management research (Bryman and Bell, 2011, P. 57)'. Pettigrew (1990) emphasized the importance of using a longitudinal design to understand organisations as a way of providing data on the mechanisms and processes through which changes are created.

5.4.1 Research Sample

This study uses a non-probability stratified sampling method (Bryman and Bell, 2011). This is because the purpose of the study is not to achieve objectivity in the selection of samples or necessarily to make generalisations (i.e., statistical inferences) from the sample being studied to a wider population of interest. Instead of generalisability of knowledge gained, the concern of a pragmatic approach is whether knowledge gained can be transferred to other settings.

Levels of disclosure in corporate annual reports are not likely to be the same across all sectors of the economy. This may occur for a number of reasons. For example, Signalling theory might be able to explain how an industry that is internationally exposed will most likely disclose more or less information about its strategy and BM, not necessarily because of the need to raise external capital or match foreign exchange risks, but also to increase international awareness of their existence (Cooke, 1992). The industries chosen for this study includes the banking sector; the food and drug retailer sector; and the gas, and water and multi-utilities sector. The study started with the banking industry, but two other industries were included to give an understanding of Strategy and BM disclosure practice between the financial and non-financial sectors. The companies included in the sample have been selected based on three criteria; country of incorporation (United Kingdom), and market (main market), the third criteria is based on the listing year of the company. Any company listed after 2006 (the benchmark for the voluntary period) is eliminated from the sample.

The banking sector is a highly regulated industry. In a report, Deloitte (2015) it was highlighted that "the banks managed to make their reports considerably shorter but continued to produce the longest annual reports with an average report length of 392 pages (2014:468). The reduction in length was primarily driven by a decrease in areas of the narrative including the section dealing with the disclosure of risks. It is not surprising that banks continue to produce the longest reports given the additional regulatory requirements, and lengthy financial instruments disclosures".

Highly regulated industries such as the banking and utility sector will most likely be motivated to disclose information to try and reduce agency costs, in terms of costs of complying with legislation (see Ross, 1989) or because of the extent of regulation, these companies might feel justified and less motivated to disclose more information (Watson et al., 2002).

In addition, sectors that are economically significant are expected to disclose more information. In the UK, the retail sector is a major contributor to the total economic output (11% of total economic output in 2017). In a house of commons' report, "the retail sector is one of the few sectors with presence in every neighbourhood and it has a considerable multiplier effect" on local economies… (2013, p.15). If the disclosure of

Strategy and BM is considered as “best practice”, then such an approach may signal reporting quality (see Watson et al., 2002).

Tables 5.1 – 5.3 shows the list of companies from these sectors after the first two criteria of country of incorporation and market have been applied. Table 5.4 shows the final list of the study sample after the listing date criterion had been applied.

Table 5.1 Research sample for the banking sector

List Date	Company	Sector	Country of Incorporation	Market	Mkt Cap £m
29/02/2012	BANK OF GEORGIA HLDGS PLC	Banks	UK	Main Market	426.9625639
31/12/1953	BARCLAYS	Banks	UK	Main Market	27830.36072
08/04/1991	HSBC HLDGS	Banks	UK	Main Market	111122.9907
08/10/1986	LLOYDS BANKING GROUP PLC	Banks	UK	Main Market	28541.60907
10/07/1968	ROYAL BANK OF SCOTLAND GROUP PLC	Banks	Us	Main Market	16752.0976
02/02/1970	STANDARD CHARTERED	Banks	UK	Main Market	35014.75107

Table 5.2 Research sample for the GWM sector

17-Feb-97	CENTRICA PLC	**Gas, Water & Multi-utilities**	**GB**	**Main Market**	**10293.6934**
16-Aug-02	**DEE VALLEY GROUP**	Gas, Water & Multi-utilities	GB	Main Market	64.3531362
31-Jan-02	**NATIONAL GRID**	Gas, Water & Multi-utilities	GB	Main Market	36850.6266
12-Dec-89	**PENNON GROUP**	Gas, Water & Multi-utilities	GB	Main Market	3633.2445
12-Dec-89	**SEVERN TRENT PLC**	Gas, Water & Multi-utilities	GB	Main Market	5107.55504
28-Jul-08	**UNITED UTILITIES GROUP PLC**	Gas, Water & Multi-utilities	GB	Main Market	6521.61184

Table 5.3 Research sample for the food and drug retailers’ sector

01-Jul-09	BOOKER GROUP PLC	Food & Drug Retailers	**GB**	Main Market	2862.51157
27-Apr-84	GREGGS	Food & Drug Retailers	**GB**	Main Market	1054.04449
28-Feb-14	MCCOLL'S RETAIL GROUP PLC	Food & Drug Retailers	**GB**	Main Market	145.287958
30-Nov-72	MORRISON(WM.) SUPERMARKETS	Food & Drug Retailers	**GB**	Main Market	4103.42908
26-Jul-10	OCADO GROUP PLC	Food & Drug Retailers	**GB**	Main Market	1463.34953
11-Jul-75	SAINSBURY (J)	Food & Drug Retailers	**GB**	Main Market	4622.32522
15-Jul-14	SSP GROUP PLC	Food & Drug Retailers	**GB**	Main Market	1361.34987
23-Dec-47	TESCO	Food & Drug Retailers	**GB**	Main Market	14016.0134

Table 5.4 Research sample for the study

Industry	**Companies**
Banking	HSBC Holdings Plc
	Barclays Plc
	Lloyds Group Plc
	Standard Chartered
	Royal Bank of Scotland
Food and Drug Retailers	Sainsbury
	Tesco
	Morrison
	Greggs
Gas, water and Multi-utilities	Centrica
	National grid
	Pennon Group
	Severn Trent Plc
	United Utilities Group Plc

5.4.2 Sample Period

This current study uses three criteria in the selection of companies included in the research – annual reports of companies incorporated in the UK, companies with operations on the main market, and companies with published reports between 2006 and 2015. After the selection of sample companies, the period of time from 2006 to 2015 was framed for investigating Strategy and BM disclosures of 14 companies in three industries on a longitudinal, intra-industry and inter-industry study. The choice of 2006 as starting year for this longitudinal analysis was because 2006 mark the year listed companies were required to disclose forward-looking statements in the Business Review section of annual reports. However, there was no particular reference to Strategy and BMs.

Further, in 2010, the UK corporate governance code required listed companies to disclose their Strategy and BM in the annual reports. Nevertheless, the UK corporate governance code is based on a ‘comply or explain principle’, which implies that the requirement was not mandatory. In 2012, the UK government through the Financial Reporting Council (FRC) issued a mandatory requirement that listed companies should disclose their Strategy and BM in the Strategic Report section of the annual report - hereby, replacing the Business Review with the Strategic Report (Deloitte, 2014). The mandatory requirement is effective from 1st October (2013).

5.4.3 Media Selection: Annual reports

When conducting a content analysis, a choice needs to be made between which documents to analyse (Gray et al., 1995). All forms of data that are made available can be used in content analysis. Official documents, such as annual reports, letters, and notes, among others, also function as institutionalized traces. This means that they may legitimately be used to draw conclusions about activities, intentions and ideas of their creators or the organisations they represent. The annual reports as a choice of publication was mainly justified on the increased emphasis on corporate transparency and that an annual report is an important communication source and a legitimate document (Gray et al., 1995), they are prime materials to study the interaction of firms with their environment (Dirsmith and Covaleski, 1983).

Annual reports though, have been criticised to suffer from significant bias in the contribution of organizational actions and outcomes (Clapham and Schwenk, 1991). This is partly because they can be prepared by public relations specialists rather than the top management team (Abrahamson and Hambrick, 1997). However, in the study of a cognitive phenomenon like Strategy and BM, annual reports have advantages over other sources of corporate information as they do not suffer from retroactive sense-making (Duriau et al., 2007). Osborne et al. (2001) noticed their reliability compared to interviews or questionnaires of senior executives. Also, researchers argue that they spend considerable time outlining the content of the report, proofreading and changing the content to their taste (Bowman, 1983; Barr et al., 1992).

A second issue can be identified when deciding the location of Strategy information within the annual report. This research identifies Business Review in the directors' report as the main location of strategic information in the annual reports from 2006. However, from periods ending on or after 30th September 2013, it is expected that the location of Strategy and BM disclosure should be in the Strategic Report, which replaces the business review within the director's report (Deloite, 2013). Hence, for this study, the Business Review section of the annual report for 2006-2012 was investigated, and the Strategic Report section for 2013-2015. In addition, the chairman's and chief executive reports were read. Keyword search was also used to identify if the disclosure of these concepts was located outside the selected areas in the documents.

5.5 Research Method

The previous sections have discussed the problems of information asymmetries and the need to continually improve the quality of annual reports to enhance comparability, understandability and standardization, in order to enhance investment decisions. Consequently, several techniques that aim to improve the interpretation of the contents of annual reports have been developed. For example, in corporate social reporting CSR) and its context (Hackston and Milne, 1996; Unerman, 2000), in studies on intellectual capital – IC (see Guthrie et al., 2004). Thus, for the purpose of this study, content analysis appears to be the most appropriate method to assess how Strategy and BM are disclosed in annual reports. In addition to corporate annual reports, this study will use data from databases, such as FAME and IBES for the analysis of the determinants of strategy and BM disclosures.

A major factor that distinguishes content analysis from other methods of enquiry is that content analysis analyses texts in the context of their uses (Krippendorff, 2013). Content analysis views data not as physical events but as texts, images, and expressions that are created to be seen, read, interpreted, and acted on for their meanings, thus, analysis must be with such uses in mind. It makes sense of what is mediated between people-textual matter, symbols, messages, information, among others, without affecting those who handle that textual matter. Content analysis is a primary tool used for analysing annual reports (Grbich, 2012). Elo and Kyngäs (2008) described content analysis as a method of analysing written, verbal or visual communication messages. Content analysis is also known as a method of analysing documents.

The choice of content analysis is because, researchers regard content analysis as a flexible method for analysing text data (Cavanagh, 1997). Examples of the usage of content analysis technique for the study of Strategy disclosure and BM disclosure in annual reports can be found in (Santema and Van de Rijt, 2001; Padia and Yasseen, 2011; Giunta et al., 2014; Bini et al., 2016). The method found its critics in the quantitative field, who considered it to be a simplistic technique that did not lend itself to detailed statistical analysis. Nevertheless, despite criticism, scholars argue that the method has flexibility in terms of research design (Harwood and Garry, 2003).

The content analysis approach adopted used in this study to analyse the disclosure of Strategy and BM in the annual reports is disclosure index. Disclosure index studies are based on the general principles of content or thematic analysis (Weber, 1990; Holsti, 1969). This is because the current researcher had to develop a framework for disclosure index at the beginning of this study, hereby reading the whole paragraph to build up a list that will form the disclosure index (Beattie et al., 2004; Marston and Shrives, 1991).

Disclosure studies using disclosure index often makes a fundamental distinction between mandatory and voluntary disclosure as a justification for using index, and they are form-oriented (Beattie et al., 2004). Disclosure index score can give a measure of the extent of disclosure (Marston and Shrives, 1991). Also the focus of this study is on both the investigation of inter-company differences, and the distinction between mandatory and voluntary disclosure using longitudinal analyses (Camfferman, 1997).

Further, this study uses descriptive statistics in answering some aspects of question two and regression analysis (hypotheses testing) to address the third empirical question (chapter 8). According to (Neuendorf, 2002) the concept of content analysis as a quantitative method includes hypothesis testing. Thus, the disclosure index score measured in this study is used as dependent variables to examine the determinants or incentives for the observed Strategy and BM disclosure practice. Section 5.7 describes the model adopted for this study.

5.5.1 Unit of analysis

Content analysis involves classifying text units into categories (Beattie et al., 2004). In addition, the use of content analysis involves deciding what should form the basis for coding (unit of analysis) and what should form the basis for measuring the amount of disclosure (unit of measurement) (Unerman, 2000). The recording unit for this study is paragraph. Krippendorff (2012) opined that sentences are the minimal recording unit of analysis for individual words but are not sufficient. Generally, the larger the context, the more meaningful it is for analysts to identify the direction of information. Further, the unit of measurement is an important consideration as one of the key assumptions underlying content analysis is that volume signifies the importance of items being disclosed. A choice of unit of measurement is not significant in this study because the focus is not on multiple disclosures but on the presence or absence (Beattie and Thomson, 2007).

5.5.2 Research instrument

In developing the disclosure index, the current researcher examined: Previous literature on Strategy and BM (Giunta et al., 2014; Santema and Van de Rijt, 2001); FRC guidance report 2013 for the BM criteria construction; Governance in focus: Deloitte (2012); IR (2013); and the most recent annual report of top 13 FTSE companies. I stopped at 13 when I was not getting additional information. FTSE Index Ranking as at 24th June 2015. The current researcher read through each report severally and coded using categorical distinctions, not relying on keywords and headings. It is however expected that the 2014 reports used for this checklist development would have sections for Strategy and BM, even if they were called by other titles.

Table 5.5 Strategy Disclosure categories

Category	Description
Strategic Priorities	Reinforcing the firm's objectives, strategic focus
Corporate Strategy	Translation of challenges into a road map for implementation. The overall Strategy. This Strategy is broader and generic in nature. For example, growth Strategy.
Business unit Strategy	Shows how each business unit contributes to the actualization of the corporate Strategy and strategic priorities. It shows how each business unit aligns with the overall/corporate Strategy.
SWOT Analysis: Strength	Strengths, weaknesses, opportunities, and threats.
Progress against strategic priorities	Discussion of how Strategy was implemented the past year.
Challenge mitigation	How the entity intends to minimize the effect of the risk.
Portfolio of businesses	A list of business activities
Customer segments	Customer niche, target market.

Table 5.6 BM disclosure categories

Category	Key Words/Description
Value creation	This involves a more detailed description of the business activities. Focusing more on how customers benefit from the products and services.
Value capture	How income is recognized from the value created. This includes pricing.
Unique offering (key success factor)	Quality, peculiarity, uniqueness
Expertise (competence)	Competences
Value creation framework	Investment criteria
Entity Structure	Insight into how the organization is managed. That is, the board and other management team of the day-to-day business. This includes roles/duties.
Value Chain/process description	Description of the process involved in creating value.
Distribution	Geographical presence
Resources	Human capital (employees), material, financial, values, technology, and global synergy.
Relationships	Suppliers, investors, regulators, partners, communities, and customers.
Justification for business activities	Economic role or importance of the business

5.6 Reliability and Validity in Content Analysis

Subjectivity occurs in content analysis when decisions are made throughout the process of recording and this can affect the reliability and validity of findings. Hence, measurement is related to the reliability and validity in the process of data capture and making inferences (Riffe et al., 2005). Thus, it is important that analysts require practicable measurement to analyse contents in a trustworthy way. The issue of reliability and validity has been widely discussed in the literature (see Bozzolan et al., 2003; Beattie and Thompson, 2007; Holsti, 1969).

5.6.1 Reliability

Reliability entails the researcher assigning the same numbers that would be generated by different coders, adopting the same classification criteria to the same content (Riffe, 2005). Put differently, high transparency about the procedure of analysis is necessary to ensure the reliability of results (see Beattie and Thompson, 2007; Bini et al., 2016). The actions of coders and the measurement procedures used are major factors in determining the reliability of data (Holsti, 1969; Riffe et al., 2005). Hence, (Berelson, 1952) stressed that objectivity is an important element in content analysis, as such analysts must reduce subjectivity in analysing communication content. It entails showing that the findings are consistent and could be repeated by means of leaving an 'audit trail' which is a transparent description of the research process in order to allow insight into how the analysis was conducted and conclusions were reached (Holsti, 1969; Weber, 1990; Johnson et al., 2006).

Therefore, in order to enhance reliability in content analysis, the coder's skill and clarity of categories are two important factors. The coder's ability relates to the coder's skill, insight, fatigue, bias and experience which can be achieved through adequate training, reliability test and computer aids (Holsti, 1969; Neuendorf, 2002). Thus, the coder's training, computer aids and reliability test (comparing coding results at different times) were employed to resolve these issues (Neuendorf, 2002, Riffe et al., 2005). Also, the clarity of categories requires a clarity of procedures for recording and the use of well-defined categories, which can assist in achieving high level of reliability (Milne and Adler, 1999). In order to facilitate reliability and avoid poor management of coding scheme, this current researcher used a coding sheet to record the content attributes of each unit of content in the study (see Riffe, et al., 2005). This coding sheet has the same level of importance as a questionnaire in a random sample survey and the same rules for clarity of presentation apply. Also, the current researcher coded the data twice. A re-code was necessary to compare the scores achieved at different times (Creswell, 2012).

5.6.2 Validity

Validity relates to demonstrating the interconnectedness between a conceptual definition and its measurement (Neuendorf, 2002). Weber (1990) described validity in connection with the validity of the classification scheme, or variables derived from it, or the validity of the interpretations relating content variable to their causes or consequences. Validity could either be external or internal validity (Neuendorf, 2002; Riffe et al., 2005). External validity involves showing that the findings are applicable in other contexts (generalisability). On the other hand, internal validity is concerned with establishing confidence in the 'truth' of findings. It entails the matching of a conceptual definition and an operational definition (measurement).

As argued earlier, issue with a pragmatic approach to research is the extent to which knowledge gained through a method in a specific setting can be appropriately applied in other settings, rather than the choice between whether knowledge is specific and context dependent or universal and generalizable. Thus, what is important is whether knowledge gained can be transferred to other settings – "transferability" (Lincoln and Guba, 1985). To achieve validity, this current researcher had a prolonged engagement with the text and context by means of repeated close readings and familiarization with surrounding context (Lincoln and Guba, 1985). The researcher started by reading the relevant sections of the reports through several times to become immersed in the data. In making sense of the data, first, all passages that could be considered as part of Strategy and BM disclosures as categorized in tables 4.1 and 4.2 respectively were highlighted. Thereafter, notes were written on marked passages, after carefully reading what kinds of issues were discussed in preceding or following sentences and chapters

5.7 Model specification and variable measurement

To test for an association between Strategy, and BM disclosure index and the possible determinants of such disclosures, three sub incentive categories, namely: contractual, market, and corporate governance incentives, and one overall model have been constructed. In addition to the explanatory variables described in Section 4, I also include industry dummy variables (Industry dummies) which are defined using Fame's 2-digit SIC groupings, and year dummy variables (Year dummies). The dependent and independent variables are listed and defined in Table 5.4.

The assumptions underlying the regression model were tested for multi-collineraity based on the variance inflation factor (VIF). None of the variables have a VIF value in excess of 10 (Neter et al.1983) suggesting that multi-collinearity is not a problem in interpreting the regression results. I use the following regression models:

SDI = α + β1 Contractual incentives+ β2 Market incentives + β3 Corporate Governance Incentives + β4 ROA + β5 Size + Industry dummies + Year dummies + ε (1)

BMDI = α + β1 Contractual incentives+ β2 Market incentives + β3 Corporate Governance Incentives + β4 ROA + β5 Size + Industry dummies + Year dummies + ε (2)

Where variables for contractual incentives include: Dloss, leverage, and Altman, while, variables for market incentives include: firm age and analyst following, and variables for corporate governance incentives are compensation (both CEO's annual incentive bonus and total pay). The description for the variables is in Table 4.4 below. This study also uses the following regression models to examine the association between Strategy and BM disclosure and subcategories of disclosure drivers (contractual, market and corporate governance incentives).

Contractual incentives as determinants of Strategy and BM disclosure:

SDI = α + β1 ROA+ β2 Size + β3 DLOSS + β4 Lev + β5 Altman + Industry dummies + Year dummies + ε *(3)*

$BMDI = \alpha + \beta 1\ ROA + \beta 2\ Size + \beta 3\ DLOSS + \beta 4\ Lev + \beta 5\ Altman + Industry\ \ dummies + Year\ dummies + \varepsilon$ (4)

Market incentives as determinants of Strategy and BM disclosure:

$SDI = \alpha + \beta 1\ ROA + \beta 2\ Size + \beta 3\ Analfol + \beta 4\ Age + Industry\ dummies + Year\ dummies + \varepsilon$ (5)

$BMDI = \alpha + \beta 1\ ROA + \beta 2\ Size + \beta 3\ Analfol + \beta 4\ Age + Industry\ \ dummies + Year\ dummies + \varepsilon$ (6)

Compensation and corporate governance incentives as determinants of Strategy and BM disclosure:

$SDI = \alpha + \beta 1\ ROA + \beta 2\ Size + \beta 3\ PAY + \beta 4\ AIS + \beta 5\ Bsize + \beta 6\ BIND + \beta 7\ BMEET + Industry\ \ dummies + Year\ dummies + \varepsilon$ (7)

$BMDI = \alpha + \beta 1\ ROA + \beta 2\ Size + \beta 3\ PAY + \beta 4\ AIS + \beta 5\ Bsize + \beta 6\ BIND + \beta 7\ BMEET + Industry\ \ dummies + Year\ dummies + \varepsilon$ (8)

Dependent Variable:

To assess the extent of Strategy and BM disclosure in annual reports, a checklist containing 22 items (11 for each disclosure type) was constructed (see Appendix). A dichotomous procedure is applied whereby a company is awarded 1 if an item included in the checklist is disclosed and 0 if it is not disclosed. Accordingly, the Strategy disclosure index and the BM disclosure index are computed as the ratio of actual scores awarded to the maximum score attainable (11) by that company (see Ghazali, 2007). Thus, the index is measured for each company as the ratio of the score obtainable to the maximum score relevant for that company. All annual reports (on the companies' websites) were read twice to ensure consistency in scoring. The second examination was done after analysing all annual reports in the first round to ensure consistency in scoring. In the few cases where differences existed between the first and second scoring, the annual reports (on the companies' websites) were subjected to a third final assessment. Table 5.7 describes the variables included in the models.

Table 5.7 Definition of variables

Variable name	Variable Abbreviation	Variable Description	Predicted sign
Strategy Disclosure Index (dependent Variable)	SDI	Measured as a ratio of disclosure content point over the maximum score a firm can achieve	
BM Disclosure Index (dependent variable)	BMDI	Measured as a ratio of disclosure content point over the maximum score a firm can achieve	
Profitability	ROA	Return on Assts. Calculated by dividing net income by total assets	
Size	Size	Size is the natural logarithm of the total number of assets.	
Industry	Industry dummies	Dummy variable for industry	
Year	Year dummies	Dummy variable for year	
Loss	DLOSS	A dummy variable that equals 1 if profitability is less than or equal to 0 and 0 if otherwise.	–
Leverage	LEV	Calculated as ratio of book value of total debt and total assets	±
Financial Distress	Altman	A measure of bankruptcy risk	-
Listing Age	Age	Listing age is the logarithm of the years since the firm was first listed on the London Stock Exchange.	–
Analyst following	Analfol	The natural log of the number of analysts following a firm.	+
Total Pay	Pay	Measured as the natural log of CEOs' pay	±
Annual Incentive Scheme	AIS	Measured as the natural log of annual bonus	±
Board Meeting (Active board)	Bmeet	Measured as the number of board meeting held during the year	±
% of Independent Directors	BIND	Proportion of independent directors on board	±
Board Size	BSize	Board size is measured as the logarithm of the total number of directors.	±

5.8 Chapter Summary

This chapter justifies the use of a pragmatic (mixed method) approach in the study of Strategy and business method, arguing that complete objectivity and complete subjectivity is impossible. Thus, both qualitative and quantitative analysis were adopted. Qualitative content analysis is concerned with the development of the meaning of communication and the identification of critical processes. Quantitative approach however, entails the use of systematic protocols, objective measures and the quantification of information. This chapter further outlined the basic steps involved in analysing content analysis, and demonstrated the importance of reliability and validity of data in ensuring credibility of findings drawn.

Further, this chapter specified that this is a longitudinal study, focusing on a 10-year period (2006-2015). Finally, the model adopted for the third empirical chapter was described. This involves the definition of variables, both dependent and independent variables and the three categories Strategy and BM disclosure determinants, namely: contractual incentives, market incentives, and corporate governance incentives.

CHAPTER 6 STRATEGY AND BM DISCLOSURE PRACTICE

6.1 Chapter Overview

This chapter aims to analyse and discuss the disclosure of Strategy and BM in the annual reports of a sample of 14 companies from three industries- The Banking; Gas, water and Multi-utilities & The Food and Drug Retailers industry. This section explores both micro (company) and meso (industry) level disclosure practice, using the proposed disclosure index. It attempts to answer the first objective of this study, and also the first question in the narrative research framework (Beattie, 2014). The aim is to employ a descriptive attempt to explain the described practice of disclosure using content analysis. Accordingly, Strategy and BM disclosure index are measured for each company as the ratio of actual sores awarded to the maximum score attainable (11 in each case) by that company (Ghazali, 2007).

The first section analyses the trend in the disclosure level regarding the content of Strategy and BM disclosure on a micro level (explores disclosure for each company included in the sample). Thereafter, a meso level investigation is conducted to explore the disclosure practice of Strategy and BM within each industry for the ten-year period.

6.2 Micro Level Analysis of the Banking Sector

This section examines and describes the pattern of disclosure of Strategy and BM disclosure by each of the five banks in the banking industry over the ten-year period (2006-2015).

6.2.1 HSBC

Table 6.1 displays the percentage disclosure level (disclosure index) for (HSBC, 2006-2015) Strategy and BM. It shows that the disclosure of Strategy and BM items is not a new phenomenon that emerged after the corporate governance requirement for disclosure in 2010. Further, it shows that HSBC discloses more Strategy than BM up until 2013 after the mandatory requirement to disclose both BM and Strategy. It shows that the disclosure level of Strategy drops in 2007, and then becomes stable between 2008 and 2010. However, BM disclosure continued to drop between 2007 and 2009 (28% decrease), increasing between 2010 and 2011. It is perhaps likely, that HSBC was not clear about its future directions and the reliability of its BM at this period (financial crisis) and this impacted on its disclosure of Strategy and BM (see Hill and Jones, 2011). The financial crisis spans between 2007 and 2009 (Taylor, 2009; Erkens et al., 2012; Lins et al., 2015). On the other hand, the increase in the level of disclosure of both BM and Strategy between 2010 and 2011 might be due to the corporate governance requirement of 2010.

Table 6.1 HSBC Strategy and BM Disclosure Level

Year	Strategy	BM
2006	91	64
2007	91	73
2008	82	64
2009	82	36
2010	82	64
2011	91	82
2012	100	73
2013	82	91
2014	91	91
2015	91	64

6.2.2 Barclays

Table 6.2 displays a rise and fall in the level of Strategy and BM disclosure in the annual report of Barclays between 2007 and 2010 (between 68% and 36%). This might be due to the effect of the onset of the financial crisis. In addition, it could be as a result of lack of clarity about their Strategy and BM. 'At a time of significant market turbulence, it is important to be clear about Strategy (Barclays A.R, 2007, p.8)'. However, there was an increase in the level of disclosure of both Strategy and BM from 2010. This might partly be explained by the change in CEO in 2010, and the corporate governance code requirement in 2010. The increase between 2013 and 2014 might also be as a result of the mandatory requirement effective from October 2013; however, there was a decline in the disclosure of Strategy and BM after the mandatory requirement. It appears that the corporate governance requirement and the mandatory requirement for disclosure has impacted on the disclosure of Strategy and BM in the narrative section of annual reports (Li, 2010; Beattie et al., 2008).

Table 6.2 Barclays Strategy and BM Disclosure Level

Column1	Strategy	BM
2006	45	45
2007	73	64
2008	64	45
2009	73	64
2010	36	36
2011	73	64
2012	82	73
2013	91	91
2014	100	91
2015	91	73

6.2.3 Lloyds

Table 6.3 shows an increase in the level of BM disclosure of Lloyds between 2006-2008, which stabilises between 2008 and 2009. Thereafter, there was a decrease between 2009 and 2010. It appears that the management of Lloyds was trying to cope with the effect the changes caused by the financial crisis. The CEO left Lloyds in 2010, which might possibly be the reason for the decline in BM disclosure level that year. Between 2010 and 2011 there was an increase, but it stabilises between 2011 and 2012. There was a decrease between 2012 and 2013, with an increase from 2013. On the other hand, it appears that Strategy disclosure did not change between 2006 and 2010 (during the era of the previous CEO – Eric Daniels). However, it shows a decrease in 2011, with a consistent level of Strategy disclosure till 2014.

Table 6.3 Lloyds Strategy and BM Disclosure Level

Year	Strategy	BM
2006	91	55
2007	91	64
2008	91	73
2009	91	73
2010	91	64
2011	91	73
2012	82	73
2013	82	55
2014	82	73
2015	82	82

6.2.4 RBS

Table 6.4 shows that Strategy disclosure increased by 49% in 2008. This might be due to the change in CEO in 2008. However, the disclosure level reduced slightly in the subsequent years (2009 & 2010) by 11%. On the other hand, BM disclosure was consistent (55%) between 2006 & 2009. Thereafter, it continues to fluctuate between 55% and 45%, though increases from 2013. This might be as a result of the revised Companies Act in 2013 and partly because of the change in CEO in 2013.

Table 6.4 RBS Strategy and BM Disclosure Level

Year	Strategy	BM
2006	55	55
2007	55	55
2008	82	55
2009	73	55
2010	73	45
2011	82	55
2012	82	45
2013	82	55
2014	82	64
2015	91	73

6.2.5 Standard Chartered

Table 6.5 shows that Strategy disclosure for Standard Chartered was consistent up to 2014 (2006-2013). In 2006, the new management brought continuity in Strategy, note that they came to start a new Strategy. ‘2012 was another year of good performance for Standard Chartered, thanks to a consistent Strategy, a stable management team… (Standard Chartered, A.R. 2012, p.6)’. This means that consistence in Strategy is seen as a key success factor. Further, BM disclosure level also remained consistent until 2013, but increased in 2014. The increase might partly be due to the amended CA 2006 in 2013. Additionally, Strategy was reviewed in 2012. Strategy changes based on context and challenges (See Standard Chartered, 2012 p. 10). Also, the management discloses, "it gets harder to deliver the same rates of growth as we get bigger" (See Standard Chartered, 2012, p.8). This might imply that with the new Strategy, it will be necessary to improve the BM to get performance at par. Overall, this finding also suggests that the disclosure of Strategy and BM is not new in the business world. Companies were disclosing components of both Strategy and BM before both the corporate governance requirement and the mandatory requirement.

Table 6.5 Standard Chartered Strategy and BM Disclosure Level

Year	Strategy	BM
2006	91	82
2007	91	82
2008	91	82
2009	91	82
2010	91	82
2011	91	82
2012	91	82
2013	91	73
2014	91	82
2015	82	82

6.3 Meso Analysis of the Banking Industry

This section examines and describes the pattern of disclosure of Strategy and BM disclosure in the banking industry over the ten-year period included in this study (2006-2015).

6.3.1 Strategy Disclosure

The lowest Strategy disclosure level for the banking industry before the corporate governance requirement was 36% for Barclays in 2010, while the highest was 91% for Standard Chartered. Interestingly, the highest recorded level of Strategy disclosure after both the corporate governance and mandatory requirement was 100% for Barclays in 2014 and 91% in 2015 (RBS and Barclays).

As discussed earlier, Although, Table 6.6 shows that Strategy is not a new term that emerged in 2010 after the corporate governance requirement. However, findings suggest that the disclosure level of Strategy in the banking industry was 82% and above after the mandatory requirement. In such a case, as suggested by agency theory the focus is reducing agency costs, which includes increasing the disclosure of insider information to enhance investors' investment decisions. This conclusion is consistent with the findings of Santema et al. (2005).

Table 6.6 Banking Sector Strategy Disclosure Level

Year	HSBC	Barclays	Lloyds	RBS	Standard Chartered
2006	91	45	91	55	91
2007	91	73	91	55	91
2008	82	64	91	82	91
2009	82	73	91	73	91
2010	82	36	91	73	91
2011	91	73	91	82	91
2012	100	82	82	82	91
2013	82	91	82	82	91
2014	91	100	82	82	91
2015	91	91	82	91	82

6.3.2 BM Disclosure

Table 6.7 shows that Standard Chartered has the same level of BM disclosure throughout the period under investigation (82%) except in 2013 -73%. The lowest level of BM disclosure for the banking industry is 36% (HSBC: 2010; Barclays: 2009). While, the highest level of BM disclosure is 91% (Barclays: 2013; 2014). Hence, although there was a corporate governance requirement for the disclosure of Strategy and BM in 2010, firms were disclosing some components of BM often without the use of the term 'BM'. Also, Figure 6.8 shows that banks disclosure of their BM became relatively above 73% after 2010. However, after the amendment of the Companies Act (a mandatory requirement for the disclosure of Strategy and BM in annual reports in 2013) most companies had a heading for the term 'BM'.

According to Margeretta (2002) bringing the components together, firms should be able to tell their BM story of how and why their products and offerings can generate attractive revenues and still create value for customers. Howbeit, Table 6.7 shows that the full components of BM is still not disclosed. This might partly be due to the lack of an adequate specification of BM-component description by the Companies Act. The amended Companies Act requires that the strategic report should contain among others, a fair review of the company's business, and a description of the principal risks and uncertainties facing the company. Further, it might be as a result of impression management strategies to manipulate readers' perception (Gaia et al., 2016). This finding is also in congruence with the conclusion of Bini et al. (2016) that companies rarely use BM disclosure to convey a cohesive story that highlights the interconnections among the different components of BM information disclosed. Further, this finding is consistent with the conclusion of IFAC (2014) that although BM disclosure is on the increase, it is far from being a mature practice. The next empirical chapter investigates the extent of disclosure relating to the components of BM information.

Table 6.7 Banking Sector BM Disclosure Level

Year	HSBC	Barclays	Lloyds	RBS	Standard Chartered
2006	45	64	55	55	82
2007	64	73	64	55	82
2008	45	64	73	55	82
2009	64	36	73	55	82
2010	36	64	64	45	82
2011	64	82	73	55	82
2012	73	73	73	45	82
2013	91	91	55	55	73
2014	91	91	73	64	82
2015	64	73	82	73	82

6.4 Micro Level Analysis of the Food and Drug Retailers' Industry

This section examines and describes the pattern of disclosure of Strategy and BM disclosure by each of the five companies in the Food and Drug Retailers' industry over the ten-year period included in this study (2006-2015).

6.4.1 Tesco PLC

Table 6.8 shows that Strategy disclosure level for Tesco PLC had a lowest level of disclosure in 2006 (64%) reaching a high of 91% in 2009. Thereafter, disclosure level drops to 82% then 73% between 2010 and 2013. It again increased to 82% in 2014. On the contrary, BM disclosure had the lowest level of disclosure in 2006 and 2007 (36%), increasing thereafter to 64% in 2008 and 2009. Then it decreased to 45% between 2010 and 2012. However, in 2013 and 2014 the disclosure level increased to 64% (42% increase). However, the annual report of 2015 reveals a downward trend in the level of Tesco PLC's Strategy and BM disclosure. This might be partly explained by the loss of £6.4b declared by the company in 2015 and also the change in chairman and CEO.

One might reason that the lack of consistency in Strategy and BM disclosure is partly due to the absence of clarity of Strategy, and the resulting 'poor performance'. This might be partly suggested seeing the comment of a company from another industry '2012 was another year of good performance for Standard Chartered, thanks to a consistent Strategy, a stable management team… (Standard Chartered, A.R. 2012, p.6)'. 'At a time of significant market turbulence, it is important to be clear about Strategy (Barclays A.R, 2007, p.8)'. Additionally, Table 6.8 does not appear to reflect the effect of the corporate governance requirement for the disclosure of Strategy and BM, or the mandatory requirement. This might suggest that companies in the Food and Drugs Retailers' Industry have not yet internalised the changes expected the disclosure of their Strategy and BM.

Table 6.8 Tesco Strategy and BM Disclosure Level

Year	Strategy	BM
2006	64	36
2007	73	36
2008	73	64
2009	91	64
2010	82	45
2011	73	45
2012	73	45
2013	73	64
2014	82	64
2015	64	45

6.4.2 Morrisons

Table 6.9 shows an increase in the level of Strategy and BM disclosure between 2006 and 2009. Strategy disclosure level dropped in 2010 (11%). The decline in Strategy disclosure level in 2010 and subsequent drop in BM disclosure level in 2011 might be partly due to the change in Morrisons' CEO in November 2009 (Morrisons, A.R. 2010, p.3). There was also a slight drop in the level of Strategy disclosure in 2015. This drop might be insignificant but might also be due to the change in CEO earlier in the financial year. Overall, Table 6.9 appears to suggest that although the disclosure of Strategy and BM in the annual reports of Morrisons is not new after the corporate governance requirement, the disclosure of both Strategy and BM became more consistent afterwards.

Table 6.9 Morrisons Strategy and BM Disclosure Level

Year	Strategy	BM
2006	27	36
2007	45	45
2008	64	55
2009	82	73
2010	73	73
2011	82	64
2012	91	73
2013	91	73
2014	91	73
2015	82	73

6.4.3 Sainsbury

Table 6.10 shows that Sainsbury's Strategy disclosure increased between 2006 and 2008. This might be due to a continuous review of Strategy by the new CEO - Justin King who joined the company in 2004 (Sainsbury A.R. 2008, p.4) which might have resulted in clarity of Strategy and thereafter, a consistent Strategy disclosure between 2008 and 2015. On the other hand, Sainsbury's BM remained consistent between 2006 and 2014. This might be as a result of clarity in Strategy. "Our passion for healthy, safe, fresh and tasty food, our value, innovation and strong ethical approach to business provides differentiation between us and our major competitors and are what customers want and expect from Sainsbury's (Sainsbury A.R. 2008, p.4). However, it could also mean that the management of Sainsbury did not change their approach to disclosure even after the requirements. Interestingly, 2015 annual report shows an upward movement in BM disclosure. This might be as a result of the appointment of a new CEO.

Table 6.10 Sainsbury Strategy and BM Disclosure Level

Year	Strategy	BM
2006	55	64
2007	64	64
2008	82	64
2009	82	64
2010	82	64
2011	82	64
2012	82	64
2013	82	64
2014	82	64
2015	82	82

6.4.4 Greggs

Table 6.11 shows that Greggs' Strategy disclosure level had a continuous drop between 2006 and 2008. The Strategy disclosure level increased in 2009 (62% increase). The increase might be due to the change in CEO in 2009. Thereafter, there was a slight decrease in 2010 (12% decrease). However, Greggs' Strategy disclosure level increased between 2011 and 2012 (28% increase), then remained consistent between 2013 and 2014. The increase in the level of Strategy disclosure between 2011 and 2012 might be as a result of the revised corporate governance code of 2010.

On the other hand, BM disclosure level fluctuated between 36%, 45%, and 55% between 2006 and 2011, having a lowest level of disclosure rate in 2007 (36%). Greggs' BM disclosure level increased to 64% in 2012 (16% increase), thereafter reducing to 55% in 2013 and 45% in 2014. The dramatic fluctuation in the disclosure of BM might be as a result of the fluctuation in the level of Strategy disclosure. This could be indicative of lack of clarity in Strategy. It is worth knowing also that Greggs changed its CEO in 2013. However, the Table shows that BM disclosure level improved in 2015. The improvement in Strategy clarity could be seen in the chairman's statement in 2016.

"In 2015, we delivered another excellent performance in the second year of implementation of our Strategy to transform Greggs from a traditional bakery business into a modern, attractive food-on-the-go retailer. We have made significant progress across all areas of our strategic plan, with the result that our estate is stronger and our products, value and service are all improving the experience for customers" (Greggs AR, 2015, p.16).

Table 6.11 Greggs Strategy and BM Disclosure Level

Year	Strategy	BM
2006	64	45
2007	55	36
2008	45	45
2009	73	45
2010	64	55
2011	73	55
2012	82	64
2013	82	55
2014	82	45

6.5 Meso Level Analysis of Food and Drug Retailers' Industry

This section examines and describes the pattern of disclosure of Strategy and BM disclosure in the Food and Drug Retailers' industry over the ten-year period included in this study (2006-2015).

6.5.1 Strategy Disclosure for Food and Drug Retailers' Industry

Table 6.12 shows that Morrison had the lowest level of Strategy disclosure in 2006 and interestingly the highest level of disclosure in 2013 and 2014 (91%). It also indicates how the disclosure of Strategy improved among these companies after 2010, ranging between 73% and 91%. This is contrary to lowest level of 27% and the variation in the level of Strategy disclosure among companies in the food and drug industry before 2010. The improved disclosure might be due to the corporate governance requirement of 2010 and the revised CA 2006 that was released in 2013. This is in line with agency theory that information asymmetry can be reduced through the interventions of institutions created to facilitate disclosure between managers and investors (Healy and Palepu, 2001).

Table 6.12 Food and Drug Retailers' Strategy Disclosure Level

Year	Tesco	Morrisons	Sainsbury	Greggs
2006	64	27	55	64
2007	73	45	64	55
2008	73	64	82	45
2009	91	82	82	73
2010	82	73	82	64
2011	73	82	82	73
2012	73	91	82	82
2013	73	91	82	82
2014	82	91	82	82
2015	64	82	82	82

6.5.2 BM Disclosure in the Food and Drug Retailers' Industry

The lowest level of BM disclosure in the food and drug industry was 36%. Tesco had 36% level of disclosure in 2006 and 2007, Morrison in 2006, and Greggs in 2007. Figure 6.13 shows that Morrison's disclosure level is highest between 2009 and 2014 (73%), except in 2011 when it reduced to 64%. It also shows that Greggs has the lowest level of disclosure up to 2015 (45%). Overall, it appears that the disclosure level of BM in the food and drug industry is relatively low. This might prevent investors from understanding how companies in this sector create, capture and deliver value (see also Gaia et al., 2016).

Table 6.13 Food and Drugs Retailers' Strategy Disclosure Level

Year	Tesco	Morrisons	Sainsbury	Greggs
2006	36	36	64	45
2007	36	45	64	36
2008	64	55	64	45
2009	64	73	64	45
2010	45	73	64	55
2011	45	64	64	55
2012	45	73	64	64
2013	64	73	64	55
2014	64	73	64	45
2015	45	73	82	55

6.6 Micro Level Analysis of Gas, Water and Multi-Utilities Industry

This section examines and describes the pattern of disclosure of Strategy and BM disclosure by each of the five companies in the Gas, Water and Multi-Utilities industry over the ten-year period included in this study (2006-2015).

6.6.1 Centrica PLC

Table 6.14 shows some levels of variation in the disclosure of Strategy and BM of Centrica Plc particularly before 2010. However, the disclosure level became consistent from 2010. This might be due to the introduction of the corporate governance requirement in 2010 and the subsequent 2013 revised CA 2006. It is worthy of note that the level of BM disclosure by Centrica declined between 2014 and 2015, this raises a question of whether the disclosure level will remain consistent after a period of time, partly because of the self-interest of managers, as suggested by agency theory (see Armstrong et al., 2010) and possibly proprietary costs (Healy and Palepu, 2001), or as a result of inadequate description and specification of BM components by the FRC guidance report.

Table 6.14 Centrica Strategy and BM Disclosure Level

Year	Strategy	BM
2006	91	55
2007	82	73
2008	82	73
2009	73	82
2010	82	82
2011	82	82
2012	82	82
2013	82	82
2014	82	82
2015	82	64

6.6.2 United Utilities

It is perhaps not surprising that the findings often reflect that the variation in the level of Strategy disclosure, results in variation in the level of BM disclosure. In other words, since Strategy and BM are complements (Zott and Amit, 2008), the disclosure level of Strategy is often complemented by a similar level of BM disclosure. Figure 6.15 shows that United Utilities' Strategy disclosure fluctuated between 2006 and 2009 and then remained consistent between 2010 and 2012. Followed by a decrease in 2013 (28% decrease) and an increase in 2014 (28% increase). However, the BM disclosure level varied throughout the period of investigation (2006-2015). The highest BM disclosure level was recorded in 2006 and 2012 (73%) with the lowest of 55% in 2009 and 2010. It is worthy of note that the chairman and CEO's statement of United Utilities for 2011-2013 was combined. Also, the reporting of BM and Strategy for 2012 and 2013 were combined.

Table 6.15 United Utilities Strategy and BM Disclosure Level

Year	Strategy	BM
2006	82	73
2007	82	64
2008	73	64
2009	82	55
2010	82	55
2011	82	64
2012	82	73
2013	64	64
2014	82	64
2015	82	91

6.6.3 National Grid

Table 6.16 shows that National Grid's Strategy disclosure was consistent at 73% between 2006 and 2008, then increased in 2009 and remained consistent at 82% between 2009 and 2011. It fluctuated between 2012 and 2014 varying between 73% and 82%. Once again, it is not surprising that finding shows that the variation in the level of Strategy disclosure, results in a variation in the level of BM disclosure. This finding is consistent with the conclusion of Zott and Amit (2008) that Strategy and BMs are complements and not substitutes.

Table 6.16 National Grid Strategy and BM Disclosure Level

Year	Strategy	BM
2006	73	55
2007	73	64
2008	73	64
2009	82	64
2010	82	82
2011	82	55
2012	73	73
2013	82	73
2014	73	82
2015	82	91

6.6.4 Pennon

Table 6.17 shows that Pennon has a consistent Strategy disclosure level from 2007 (91%), with the BM disclosure level showing a fluctuation between 2010 and 2011 (14% decrease). This might indicate that Pennon had a clear Strategy. One could also assume that the consistent level of Strategy disclosure relatively impacted on the consistent level of BM disclosure. This is consistent with the literature on the relationship between Strategy and BM as complementary and not substitutes (Zott & Amit, 2008).

Table 6.17 Pennon Strategy and BM Disclosure Level

Year	Strategy	BM
2006	82	64
2007	91	64
2008	91	64
2009	91	64
2010	91	64
2011	91	55
2012	91	64
2013	91	64
2014	91	64
2015	91	64

6.6.5 Severn Trent

Table 6.18 shows that Severn Trent's Strategy disclosure level varied between 82% and 91% throughout the period under investigation. However, maintaining a relatively high level of 91% between 2012 and 2014. On the other hand, the BM disclosure level was as low as 36% in 2008 but reached a high of 73% between 2012 and 2014. It is also interesting to note that the variation in the level of Strategy disclosure shows an impact on the level of BM disclosure during the period under investigation (2006-2015).

Table 6.18 Severn Trent Strategy and BM Disclosure Level

Year	Strategy	BM
2006	82	45
2007	91	55
2008	82	36
2009	91	64
2010	82	55
2011	82	55
2012	91	73
2013	91	73
2014	91	73
2015	82	82

6.7 Meso Level Analysis of the Gas, Water and Multi-Utilities Industry

This section examines the pattern of Strategy and BM disclosure in the annual reports of the five companies in the Gas, Water and Multi-Utilities industry over the period included in this study (2006-2015).

6.7.1 Strategy Disclosure in the Gas, Water and Multi-Utilities Industry

Table 6.18 reveals that the lowest level of Strategy disclosure for Gas, Water and Multi-utilities before the corporate governance and mandatory requirement was 73% (National Grid in 2006). However, the lowest level of Strategy disclosure for Gas, Water and Multi-utilities after the corporate governance and mandatory requirement was 64% (United Utilities in 2013) and the highest level of 91%. This finding appears to suggest that the disclosure practice of Strategy in this industry before the requirement for disclosure was not necessarily poor. Further, the finding however shows an element of irregularity in the disclosure level of Strategy and BM even after the regulations. In such a case, it appears that a better description and specification of Strategy-components might help improve its disclosure.

Table 6.19 GWM Strategy Disclosure Level

Year	Centrica	United Utilities	national Grid	Pennon	Severn Trent
2006	91	82	73	82	82
2007	82	82	73	91	91
2008	82	73	73	91	82
2009	73	82	82	91	91
2010	82	82	82	91	82
2011	82	82	82	91	82
2012	82	82	73	91	91
2013	82	64	82	91	91
2014	82	82	73	91	91
2015	82	82	82	91	82

6.7.2 BM Disclosure in the Gas, Water and Multi-Utilities Industry

Centrica PLC and National Grid record the highest level of BM disclosure (91%), with Centrica having a consistent level of disclosure between 2009 and 2014 and National Grid between 2010 and 2014. On the other hand, Severn Trent had the lowest level of BM disclosure in 2008 (36%). It is however interesting that the lowest disclosure level in this industry after 2010 when the corporate governance requirement was introduced is 55%, while the lowest BM disclosure level after the mandatory disclosure requirement is 64%.

Table 6.20 GWM BM Disclosure Level

Year	Centrica	United Utilities	national Grid	Pennon	Severn Trent
2006	55	73	55	64	45
2007	73	64	64	64	55
2008	73	64	64	64	36
2009	82	55	64	64	64
2010	82	55	82	64	55
2011	82	64	55	55	55
2012	82	73	73	64	73
2013	82	64	73	64	73
2014	82	64	82	64	73
2015	64	91	91	64	82

6.8 Chapter Summary

The findings in this chapter appear to be consistent with the literature that suggests that Strategy and BM are complements and not substitutes. Also, it shows that clarity of Strategy impacts on a consistent and relatively high level of Strategy and BM disclosure. Further, the finding shows that the introduction of the corporate governance requirement for the disclosure of Strategy and BM, the subsequent mandatory requirement for such disclosure, and the relative increase and consistency in disclosure is in line with the suggestion of agency theory that information asymmetry could be reduced by the intervention of institutions, such as the regulatory institution (see Armstrong et al., 2010). However, it seems that there still remains an element of irregularity in the disclosure of Strategy and BM. A better description and specification of both Strategy and BM in the FRC guidance might help to improve the disclosure of these terms and enhance investment decisions and corporate evaluations. [3]

[3] Graphical representation of the results is available in the appendix.

CHAPTER 7 THE EXTENT OF STATEGY AND BM DISCLOSURE IN ANNUAL REPORTS

7.1 Chapter Overview

This chapter seeks to address the second objective of this study. It assesses the extent of Strategy and BM disclosure. Also, it examines whether disclosure has been affected by regulation. To do so, a mean and median differences test is used. One would expect that the level of information would increase in the mandatory disclosure period so that the purpose of regulation, such as reduction of information asymmetries, could be met. Hence, this chapter further explores the first question in the accounting narrative research framework (Beattie, 2014). However, the focus is on the content of disclosure each year both during the periods of voluntary disclosure and after the regulations, rather than on the pattern of disclosure for the period under investigation.

This chapter is structured as follows: The first section examines the extent of Strategy and BM disclosure in the annual reports. This section would not compare the disclosure among industries. It focuses on using descriptive statistics to explain how companies disclose the items included in the disclosure index during the mandatory and voluntary disclosure domain. Thereafter, the chapter investigates the significance of regulation on the disclosure practice of Strategy and BM. Followed by an exploration of 'what is reported' and 'what should be reported', showing results for both before and after the mandatory requirement. The last section gives a summary of the chapter.

7.2 Extent of Disclosure

This section examines how companies voluntarily disclosed their Strategy and BM in the annual reports between 2006 and 2012 and mandatorily but with discretion of content between 2013 and 2015.

7.2.1 Extent of Strategy Disclosure during Voluntary Period

Table 7.1 provides descriptive statistics for voluntary Strategy disclosure by the three industries included in this study. It shows that on average, companies in the Gas, Water and Multi-utilities sector voluntarily disclosed about 83% of the disclosure index. The lowest disclosure for the GWM sector is seventy three percent, and the maximum voluntary disclosure is 91%. The banks on the other hand on average, voluntarily disclosed about eighty one percent of Strategy information, with the maximum voluntary disclosure being one hundred percent, and the minimum voluntary disclosure being 36%.

Companies in the food and drug sector had an average voluntary disclosure of 71%, a maximum disclosure of ninety one percent, and a minimum disclosure of 27%. It is relatively likely that the variability in the disclosure of Strategy might affect comparability, such that investors might not be able to compare the performance of companies in the same industry or other industries. However, it can be seen that there is no firm with zero disclosure index in the voluntary period. The above average disclosure level in annual reports is consistent with the findings of Santema et al., (2005) who found that companies in the UK were disclosing information about their Strategy compared to four other European companies.

Table 7.1 Strategy Disclosures during Voluntary Period

		Strategy GWM	Banking Strategy	Food Strategy
N	Valid	35	35	28
	Missing	0	0	0
Mean		83.03	80.91	70.64
Median		82	82	73
Minimum		73	36	27
Maximum		91	100	91
Percentiles	25	82	73	64
	50	82	82	73
	75	91	91	82

7.2.2 Extent of Strategy Disclosure during Mandatory Period

The descriptive statistics presented in Table 7.2 shows that on average, following the mandatory requirement to disclose Strategy in annual reports, companies in the Gas, Water and Multi-utilities sector on average disclosed 83% of Strategy information mandatorily, with a maximum mandatory Strategy disclosure of 91%, and a minimum mandatory Strategy disclosure of 64%. Banks disclosed relatively 82% of their Strategy in the annual reports, the maximum Strategy disclosure is relatively100% and the minimum is 82%. However, companies in the food and drug retailers sector on an average had a mandatory Strategy disclosure of 81%, a maximum disclosure of 91% and a minimum disclosure of 64%.

This result in Table 7.1 shows that all companies disclosed at least above 50% of the items included in the checklist. Among the 14 companies, the lowest score is 64% while the maximum is at 100%. The present results appear to suggest that managers are aware of the need to disclose more information about their Strategy in their annual reports. However, the need for a full disclosure of the items to be disclosed is important. This would enhance comparability and aid decision making for investors. This result seems to suggests that there is need for regulators to increase the clarity of what firms are expected to disclose as Strategy and BM to enhance comparability and aid decision making for investors.

Table 7.2 Strategy Disclosure during Mandatory Period

		GWM Strategy	Banking Strategy	Food Strategy
N	Valid	15	15	12
	Missing	0	0	0
Mean		83.2	87.4	81.25
Median		82	91	82
Minimum		64	82	64
Maximum		91	100	91
Percentiles	25	82	82	82
	50	82	91	82
	75	91	91	82

7.2.3 Extent of BM Disclosure during Voluntary Period

Table 7.3 shows the descriptive statistics for the voluntary disclosure of BM. It shows that on average, companies in the GWM had the same disclosure pattern as the banking sector. Banks voluntarily disclosed 65% of their BM, with the maximum voluntary disclosure being 82% and the minimum being 36%. However, on average companies in food and drug retailers sector voluntarily disclosed 55% of information on their BM, with a maximum of 73% and a minimum disclosure of 36%. This result shows some level of dispersion in the voluntary disclosure of BM in the annual report of companies included in this study. The lowest disclosure index score is 36% while the highest is 82%. As opined by Bini et al, (2016) BM descriptions are not always clearly distinguishable from other strategic components; managers might disclose some elements of BM with or without the aim of showing how these elements interact to enhance the value creation process, thus not necessarily reducing information asymmetry.

Table 7.3 BM Disclosure during Voluntary Period

		GWM BMD	BMD Banking	BMD Food
N	Valid	35	35	28
	Missing	0	0	0
Mean		64.46	64.6	55.25
Median		64	64	59.5
Minimum		36	36	36
Maximum		82	82	73
Percentiles	25	55	55	45
	50	64	64	59.5
	75	73	73	64

Table 7.4 shows the descriptive statistics for mandatory BM disclosure. It shows that on average, companies in GWM sector disclose seventy four percent of their BM information on average, with a maximum disclosure of 91% and a minimum disclosure of 64%. Banks disclose 76% of their BM information in the annual report, with a maximum disclosure of 91% and a minimum disclosure of 55%. However, companies in the Food and Drugs industry disclose sixty three percent of their BM information on average, with

a maximum disclosure of eighty two percent and a minimum disclosure of 45%. This result shows a level of variability in the disclosure of BM among companies. The lowest disclosure index score is 45% while the highest is 91%. The present result appears to suggest that there is need for more regulation on the disclosure content of BM.

Table 7.4 BM Disclosure during the Mandatory Period

		GWM BMD	Banking BMD	Food BMD
N	Valid	15	15	12
	Missing	0	0	0
Mean		74.2	76	63.08
Median		73	73	64
Minimum		64	55	45
Maximum		91	91	82
Percentiles	25	64	64	55
	50	73	73	64
	75	82	91	73

7.3 The extent of the Influence of Regulation on Disclosure

As anticipated, it is expected that the introduction of a regulation would increase the level of information under the mandatory domain, so that the purpose of regulation, such as the reduction of information asymmetry could be achieved. This section assesses the significance of the change in disclosure between voluntary and mandatory domain. It examines if the mean of resilience during the voluntary period is significantly different to the mean of resilience at the mandatory period, considering both the corporate governance requirement and the mandatory requirement.

7.3.1 The extent of the influence of Corporate Governance on Strategy and BM Disclosure

As discussed earlier in (see chapter 3.4), it is evidenced in the literature that corporate governance mechanisms are significant in explaining voluntary disclosure of information from agency theory perspectives (see Healy and Palepu, 2001). Hence, this study anticipates a higher level of Strategy and BM disclosure after the corporate governance requirement.

H*10*: *The Strategy and BM pre-corporate governance requirement and the post resilience means are not equal.*

To test the alternative hypothesis that the Strategy pre-corporate governance requirement *(M = 82.8, 78.68, and 67)* and post resilience means *(M = 83.8, 86.5 and 79.75),* and the BM pre-corporate governance requirement *(M = 63.20, 62.36 and 53.65)* and post resilience means *(M = 67.2, 70.2 and 59.25)* are not equal, a dependent samples t-test was performed.

The null hypothesis of equal resilience means was accepted for the disclosure of Strategy in both GWM and banking industry *(t (33) = -0.47, p = 0.64); t (31.82) = -1.94, p = 0.06).* This appears to suggest that there is no statistically significant difference in the disclosure of Strategy for companies in the GWM and the banking industry between the periods before and after the corporate governance requirement. However, finding shows that there is a significant difference in the disclosure of Strategy in the annual reports of companies in the food and drugs' retailers industry between the voluntary period and after the corporate governance requirement.

On the other hand, the null hypothesis of equal mean resilience is accepted for all the three industries included in this study. This result suggests that the post-corporate governance requirement disclosure of BM by all industries included in this study was not significantly higher than the pre-corporate governance requirement disclosure.

Table 7.5 Significance of corporate Governance requirement on Strategy & BM disclosures

	Pre-mean	Post mean	t	df
		GWM		
Strategy	82.72	83.80	-0.47	33
BM	63.20	67.6	-1.09	33
		Bank		
Strategy	78.68	86.50	-1.94	31.82
BM	62.36	70.20	-1.53	33
		Food		
Strategy	67	79.75	-3.04***	25.95
BM	53.65	59.25	-1.10	26

Note: * Significance at 10% level. ** Significance at 5% level. *** Significance at 1% level.

7.3.2 The extent of the influence of mandatory requirement on disclosure

H11: *The Strategy and BM pre-mandatory requirement and the post resilience means are not equal.*

To test the alternative hypothesis that the Strategy and BM pre-mandatory requirement *(M = 83.03, 80.91, and 70.64) (M = 64.5, 64.6, and 55.25)* and the post resilience means *(M = 83.2, 87.4, and 81.25) (74.2, 76, and 63.08)* were not equal, a dependent samples t-test was performed. The null hypothesis of equal resilience means was accepted for GWM Strategy disclosure i.e., $t\ (48) = 0.09,\ p = 0.93$. This finding suggests that there is no statistically significant difference between the disclosure of Strategy before and after the mandatory requirement. However, finding shows that there is a statistically significant difference between the disclosure of Strategy before and after the mandatory regulation for the other two industries – Banking and the Food and drugs retailers' industry. Thus, the null hypothesis of equal resilience means is rejected $t\ (47.8) = -2.26$, $p = 0.03$); $t\ (37.3) = -1.90$, $p = 0.00$.

On the other hand, the null hypothesis of equal resilience means was rejected for both GWM and Bank BM disclosure $t\ (48) = -2.97$, $p = 0.01$; $t\ (48) = 2.72$, $p = 0.01$. This finding suggests that there is a statistically significant difference between the discretionary disclosure of BM in the annual reports of banks and companies in the GWM industry in periods before and after the mandatory regulation. Meanwhile, finding suggests that the discretionary information disclosed about BM in the Food and retailers' industry before the mandatory requirement did not significantly statistically change after the introduction of the regulation. Thus, the null hypothesis of equal resilience means is accepted.

Table 7.6 Significance of mandatory regulation on Strategy and BM disclosures

	Pre-mean	Post mean	T	df
		GWM		
Strategy	83.03	83.2	-0.09	48
BM	64.46	74.2	-2.97***	48
		Bank		
Strategy	80.91	87.40	-2.36**	47.8
BM	64.60	76	-2.72***	48
		Food		
Strategy	70.64	81.25	-3.05***	37.3
BM	55.25	63.08	-1.90	38

Note: ** Significance at 5% level. *** Significance at 1% level.

7.4 Disclosure Items

This section attempts to answer the second question about what items of Strategy and BM are most disclosed in the annual reports Tables 7.7-7.9 relates to Strategy disclosure items during the voluntary and mandatory periods, while Tables 7.10 – 7.13 relates to BM disclosure items during the voluntary and mandatory periods.

7.4.1 Strategy Disclosure Items

Table 7.7 shows that disclosure of Strategy components included in the annual reports of banks has improved in the mandatory disclosure period, compared to the voluntary disclosure period. In the voluntary disclosure period, five disclosure items were the most disclosed, i.e., with full disclosure (these includes portfolio of businesses, threats, challenge mitigation, progress against strategic priorities and customer segments). However, during the mandatory period, eight items of disclosure are the most disclosed (these includes portfolio of businesses, threats, challenge mitigation, progress against strategic priorities, customer segments, opportunities, corporate Strategy and strategic priorities). The finding shows that weakness is the least disclosed item both during the voluntary and mandatory period (14% and 13% respectively). This might indicate that banks place more emphasis on the disclosure of challenges and threats caused by external factors, and less emphasis on weaknesses due to inadequate internal operations. This finding provides some early evidence that the assumption of both signalling and agency theory based on the concept of achieving personal interest while avoiding penalty and seeking improved benefits (Li, 2006).

Table 7.7 Strategy Disclosure Items in the Banking Industry

	Pre-reg			Post-reg		
Strategy Disclosure Items	Pre-reg	% of D	Rank	No of D	% of D	Rank
	Banking					
Strategic priorities/focus	31	89	6	15	100	1
Corporate Strategy	29	83	7	15	100	1
Business unit Strategy	23	66	9	10	67	10
Portfolio of businesses/business activities	35	100	1	15	100	1
Strength/competitive uniqueness	24	69	8	13	87	9
Weakness	5	14	11	2	13	11
Opportunities	23	66	9	15	100	1
Threats/challenges/risks	35	100	1	15	100	1
Challenge mitigants/Risk management	35	100	1	15	100	1
Progress against strategic priorities	35	100	1	15	100	1
Customer segments/customer types	35	100	1	15	100	1
Note out of:	35			15		
Pre-reg: 2006-2012; Post-reg: 2013-2015						

Table 7.8 shows that there was full disclosure of six items in the annual reports of companies in the GWM sector during the voluntary period (these includes portfolio of businesses, opportunities, threats, challenge mitigation, progress against strategic priorities and customer segments). Conversely, during the mandatory period, findings show that there is an addition to the six full disclosure items during the voluntary period, which is strength. The disclosure of strength had improved from 74% disclosure to 100%. The next most disclosed item both during the voluntary and mandatory period is strategic priority. Similar to the banking industry, table 7.8 shows that weakness is the least disclosed item in gas, water and multi-utilities sector. This might suggest that managers place more emphasis on the disclosure of challenges and threats caused by external factors, and less emphasis on weaknesses due to inadequate internal operations. This finding confirms the assumption of both signalling and agency theory based on the concept of achieving personal interest while avoiding penalty and seeking improved benefits (See Li, 2006).

Table 7.8 Strategy Disclosure Items in the Gas, Water & Multi-utilities Sector

Strategy Disclosure Items	Pre-reg			Post-reg		
	No of D	% of D	Rank	No of D	% of D	Rank
	GWM			GWM		
Strategic priorities/focus	34	97	7	14	93	8
Corporate Strategy	28	80	8	9	60	9
Business unit Strategy	20	57	10	8	53	10
Portfolio of businesses/business activities	35	100	1	15	100	1
Strength/competitive uniqueness	26	74	9	15	100	1
Weakness	2	6	11	0	0	11
Opportunities	35	100	1	15	100	1
Threats/challenges/risks	35	100	1	15	100	1
Challenge mitigants / Risk management	35	100	1	15	100	1
Progress against strategic priorities	35	100	1	15	100	1
Customer segments/customer types	35	100	1	15	100	1
Note out of:	35			15		
Pre-reg: 2006-2012; Post-reg: 2013-2015						
GWM: Gas, Water & Multi-utilities						

Table 7.9 shows that only two disclosure items (portfolio of businesses and customer segments) had full disclosure during the voluntary period in the food and drug retailers sector. On the other hand, the number of full disclosure items had increased to six items during the mandatory period (these include: strategic focus, opportunities, threats, risk management, progress against strategic priorities and customer segments). Additionally, it is worthy of note to highlight the level of disclosure of business unit Strategy in this industry as Table 7.9 shows that this item is the least disclosed item both during the voluntary and mandatory period. This might mean that companies in this industry are not well diversified or it is a practice that the Strategy for each business unit is either not explicit or not disclosed. However, the second least disclosed item is weakness and as discussed earlier in tables 7.7 and 7.8, it could indicate that managers place more emphasis on the disclosure of challenges and threats caused by external factors, and less emphasis on weaknesses due to inadequate internal operations.

Table 7.9 Strategy Disclosure Items in the Food and Drug Retailers Sector

Strategy Disclosure Items	Pre-reg			Post-regulation		
	No of D	% of D	Rank	No of D	% of D	Rank
	Food & Drug			Food & Drug		
Strategic priorities/focus	22	79	7	12	100	1
Corporate Strategy	21	75	8	11	92	7
Business unit Strategy	1	4	11	0	0	11
Portfolio of businesses/business activities	28	100	1	11	92	7
Strength/competitive uniqueness	24	86	3	11	92	7
Weakness	2	7	10	2	17	10
Opportunities	24	86	3	12	100	1
Threats/challenges/risks	24	86	3	12	100	1
Challenge mitigants/Risk management	18	64	9	12	100	1
Progress against strategic priorities	24	86	3	12	100	1
Customer segments/customer types	28	100	1	12	100	1
Note out of:	28			12		
Pre-reg: 2006-2012; Post-reg: 2013-2015						

7.4.2 BM Disclosure Items

Table 7.10 shows that the four most voluntarily disclosed BM items are value creation, relationships (both having full disclosure), distribution and resources; while value chain and value capture were the least disclosed items. The findings show an improved disclosure of BM with the discussion of value creation, expertise, distribution, resources and relationships having full disclosure. The improved disclosure might be as a result of the mandatory requirement. The discussion for the justification has improved from 54 percent to 80 percent, key success factor from 69 percent to 80 percent, and value capture from 6 percent to 53 percent. On the contrary, the disclosure of investment criteria has not improved. Thus, it appears that the discussion of some BM disclosure items (value capture, investment criteria, entity structure and value chain) still needs to be improved upon in order to improve the illustrations among the interactions of BM components, which would help to enhance the understanding of how these components relate in a company's value creation process (Bini et al., 2016).

Table 7.10 BM Disclosure Items for the Banking Sector

	Pre-reg			Post-reg		
BM Disclosure Items	No of D	% of D	Rank	No of D	% of D	Rank
	Banking					
Value creation	35	100	1	15	100	1
Value capture	2	6	10	8	53	9
Key success factor(s)	24	69	6	12	80	6
Expertise/Competence	30	86	5	15	100	1
Investment criteria	24	69	6	10	67	8
Entity structure	13	37	9	8	53	9
Value chain	1	3	11	4	27	11
Distribution	34	97	3	15	100	1
Resources	32	91	4	15	100	1
Relationships	35	100	1	15	100	1
Justification for business activity	19	54	8	12	80	6
Note: out of;	**35**			**15**		
Pre-reg: pre-regulation 2006-2012; Post-regulation: 2013-2015						

Table 7.11 shows that companies in Gas, Water and Multi-utilities sector had full voluntary disclosure of four BM items. These include; value creation, distribution, resources, and relationships. The least voluntarily disclosed BM item is investment criteria (value creation framework). However, Table 7.11 indicates that the items that were voluntarily fully disclosed are still the only items fully disclosed under the mandatory period. It also shows that the least disclosed BM item is investment criteria. This might mean that although the style of presentation of BM has changed during the mandatory period, with the addition of more picture and colures, and a BM section, the content has not necessarily changed in this sector. An exception is the disclosure of justification for business activities (44% increase) and value chain (30% increase).

Table 7.11 BM Disclosure Items for the GWM Sector

	Pre-reg			Post-reg		
BM Disclosure Items	No of D	% of D	Rank	No of D	% of D	Rank
	GWM					
Value creation	35	100	1	15	100	1
Value capture	10	29	9	5	33	9
Key success factor(s)	25	71	6	14	93	5
Expertise/Competence	29	83	5	13	87	6
Investment criteria	3	9	11	1	7	11
Entity structure	9	26	10	4	27	10
Value chain	15	43	7	11	73	8
Distribution	35	100	1	15	100	1
Resources	35	100	1	15	100	1
Relationships	35	100	1	15	100	1
Justification for business activity	15	43	7	13	87	6
Note: out of;	**35**			**15**		
Pre-reg: pre-regulation 2006-2012; Post-regulation: 2013-2015						

Table 7.12 shows that companies in the Food & Drug Sector had a full voluntary disclosure of four items. It shows that the discussion of relationships, value creation, distribution and resources were the four most disclosed items. However, the discussion of value capture and entity structure is the least voluntarily disclosed BM items. Although, the discussion of expertise has improved by 29 percent, while the discussion of justification for business activities has increased by 28 percent. It appears that there is no significant change in the content of disclosure after it became mandatory to disclose BM in the annual reports. As highlighted in the findings of the GWM, this might mean that although the style of presentation of BM has changed during the mandatory period, with the addition of more picture and colures, the content has not necessarily changed in this sector. Nonetheless, it might mean that there is need for more clarity from regulators of what the term 'BM' means.

Table 7.12 BM Disclosure Items for the Food & Drug Retailers' Sector

	Pre-reg			**Post-reg**		
BM Disclosure Items	No of D	% of D	Rank	TtZA12Z	% of D	Rank
	Food & Drug					
Value creation	28	100	1	11	92	5
Value capture	0	0	11	0	0	11
Key success factor(s)	19	68	7	9	75	6
Expertise/Competence	20	71	6	12	100	1
Investment criteria	3	11	9	3	25	8
Entity structure	0	0	11	1	8	10
Value chain	3	11	9	3	25	8
Distribution	28	100	1	12	100	1
Resources	28	100	1	12	100	1
Relationships	28	100	1	12	100	1
Justification for business activity	11	39	8	8	67	7
Note out of:	28			12		
Pre-reg: pre-regulation 2006-2012; Post-regulation: 2013-2015						

7.5 Chapter Summary

The t-test result shows that there is no statistically significant difference between

BM disclosure during the voluntary and after the corporate governance requirement. Thus, companies did not necessarily disclose more BM information after the corporate governance requirement. However, there is a significant difference between Strategy disclosure during voluntary and after the corporate governance requirement for only one of the three industries included in this study. On the other hand, finding shows that there is a statistically significant difference in the disclosure of Strategy after the mandatory regulation for two of the three industries - banking and food and drugs retailers' industry. Furthermore, finding reveals that after the mandatory regulation, there is a statistically significant difference in the disclosure of BM in the GWM and banking industry.

Further, Table 7.5-7.7 (Strategy disclosure items) shows that the disclosure of Strategy before the regulations was above average as most of the disclosure items were above average except for the disclosure of weakness which was relatively low, even in the post regulation period. The finding regarding the level of disclosure being above average is consistent with prior studies (Santema et al., 2005). In addition, the low disclosure of weaknesses is consistent with the argument of Warner (2004) that "the vast majority of chief executives are prone to gild the lily when talking or writing about the businesses under their stewardship. Only when they first take control and have a vested interest in talking up the extent of the problems in their inheritance do they have any incentive to adopt a downbeat tone". The current researcher opines that managers withhold information about weaknesses to maintain its position of relative power and avoid adverse publicity.

For BM disclosure items, the most voluntarily disclosed items are Value creation, relationships, distribution, and resources, while the least disclosed item is investment criteria for banks and GWM, and value capture and entity structure for food and drug retailers sector. Further, finding shows that the mandatory requirement seems not to have really impacted on the disclosure content of BM components particularly in the GWM sector (Table 7.9). This might be due to a lack of specification of the components of BM in the FRC guidance report. To improve illustrations among the components of BM and enhance the informativeness of BM information, the 'BM story' should include the discussion of investment criteria (value creation framework), value capture, entity structure and value chain.

CHAPTER 8 THE DETERMINANTS OF STRATEGY AND BM DISCLOSURE

8.1 Chapter Overview

This chapter aims to examine other possible determinants of Strategy and BM disclosure apart from regulation as examined in the previous chapter. It attempts to address the last empirical objective, with the aim of investigating other potential factors that could also influence the disclosure of Strategy and BM. Hence;

(a) What are the determinants of Strategy disclosure?

(b) What are the determinants of BM disclosure?

These determinants are assumed to help reduce information asymmetry (see Healy and Palepu, 2001; Coebergh, 2011). As discussed earlier, (under hypothesis development) regulation on its own is not sufficient to mitigate the agency problem or the problem of information asymmetry. It is suggested that other factors, otherwise known as incentives could explain the discretionary disclosure of Strategy and BM.

To answer the research questions above, these hypotheses apply:

1. *H1. Leverage is associated with the disclosure of Strategy and BM.*
2. *H2. Loss is negatively associated with the disclosure of Strategy and BM.*
3. *H3. Financial distress is negatively associated with the disclosure of Strategy and BM.*
4. *H4. Analyst following is positively associated with the disclosure of Strategy and BM.*
5. *H5. Listing age is negatively associated with the disclosure of Strategy and BM.*
6. *H6. Compensation is associated with the disclosure of Strategy and BM.*

7. *H7. Higher proportion of independent directors on the boards is associated with the disclosure of Strategy and BM.*
8. *H8. Board size is associated with the disclosure of Strategy and BM.*
9. *H9. The number of board meetings is associated with the disclosure of Strategy and BM.*

8.2 Descriptive Statistics

Table 8.1 presents the descriptive statistics of the variables as part of the model examined, covering both dependent and independent variables. As the results in Table 8.1 show, Strategy and BM was disclosed during the period under investigation (2006-2015) with varying levels of information. As discussed earlier, the maximum Strategy disclosure score found was relatively 100%, while the minimum was 27%. The mean of Strategy disclosure of 80% for the entire sample indicates a relatively high level of Strategy disclosure.

In terms of BM disclosure, the maximum disclosure score was 91%, while the minimum was 36%. The mean of BM disclosure, 65% for the entire sample over the period covered indicates a relatively above average level of BM disclosure. This finding may be attributable to the presence of market regulations with regard to the dissemination of information about company's Strategy and BM (Healy and Palepu, 2001). However, it is quite expedient that more public or financial intermediaries' scrutiny is needed to ensure consistency and improve the disclosure of Strategy and BM in annual reports (see Bukh, 2003; Bini et al., 2016). An important question for investors and regulators is 'about what specific items of information do firms choose to omit or avoid disclosing'. Therefore, the UK regulatory bodies are recommended to pay more attention to this matter by enacting further regulations in order to improve transparency of the market.

The summary statistics also revealed that the mean score of the profitability ratio (ROA) was 7.4% with a maximum of 64.95% and a minimum of -75.15%, indicating that most of the companies included in the final sample were rarely being profitable. Moreover, it is also observed that the average percentage of leverage (debt ratio) was 10.79%, ranging between 0.41 and 74.53%. In addition, the mean of Altman Z-score was 1.31% with a maximum of -0.96 and a minimum of 3.74%, indicating that most of the companies included in the sample were not safe from bankruptcy.

Further, the mean of annual incentive scheme was £59 with variation in the variable ranging from 0 to £9000. The mean of total pay was £2704, with a maximum of £11544 and a minimum of £290. Additionally, the mean of board size is 12 with a maximum number of 21 and a minimum of 7. Also, the mean of firm age is 35 years, ranging from 9 years to 70 years. The mean of analysts following is 15, with a maximum of 34 and a minimum of 1. There was considerable variation in these variables within the sample. Consequently, the natural logarithm for the variables was incorporated in the regression analysis to control for the wide dispersion in the variables, as reflected by their minimum and maximum. The average firm size in terms of total assets was 11.2 billion pounds.

Table 8.1 Descriptive Statistics of the Sample

Variables	Mean	Minimum	Maximum	Median
Strategy Disclosure Index	80.36%	27%	100%	82
BM D I	64.81%	36%	91%	64
Return on Assets	7.4	-75.15	64.95	5.6
Annual incentive (log) (£27000-£9000000)	5.36	0	9.1	6.34
Listing age (log)	3.4	2.2	4.25	3.46
LgSize	11.2	8	14.69	10.7
Leverage	10.79	0.41	74.53	4.5
Altman	1.31	-0.96	3.74	0.97
% ind. Directors (log)	60.3	0	86.7	62.5
Board Size (log)	2.4	1.95	3.04	2.4
Analysts following (log)	2.45	0	3.53	2.71
No of board meeting	9.65	5	28	9
Total Pay (log) (£290000-£11544000)	7.57	5.67	9.35	7.53
DLOSS	0.12	0	1	0.000

8.3 Correlation Analysis

Table 8.2 presents the correlation analysis between Strategy disclosure index (SDI), BM disclosure index (BMDI) and independent variables. It shows that firms with a higher proportion of independent directors on boards and large number of analyst following are more likely to provide higher levels of Strategy discretionary disclosures. It shows that SDI is positively correlated with BIND (r 0.183) and ANALFOL (r 0.397) at 5% and 1% level of significance respectively.

It also shows that SDI is negatively correlated with ROA (r -0.251) and Altman (r -0.392) and these correlations are statistically significant at the level of 1%. This finding suggests that firms with higher profitability less distressed firms are more likely to provide less discretionary information about their Strategy, thereby, hypothesis H4 is supported. Further, the univariate analysis supports hypothesis H4 that analysts following is positively correlated with the level of Strategy disclosure. Further, finding shows that the proportion of independent directors on boards is positively associated with Strategy disclosure.

Meanwhile, BM disclosure index (BMDI) is positively correlated with total CEO's pay (PAY, r 0.400), analyst following (ANALFOL, r 0.274) and the proportion of independent directors on board (BIND, r 0.293) at 1% level of significance. Hence, this univariate analysis supports H1, H5 and H7 that compensation in terms of total CEO's pay, analyst following and the proportion of independent directors on the boards are positively correlated with the level of BM disclosure in annual reports. On the other hand, Altman (r -0.292 @ 1% level), listing age (r -0.195 @ 5%) and ROA (r -0.170 @ 5%) are negatively correlated with BM disclosure. This analysis also supports H11 and H6, however, rejects hypothesis H4. Hence, less distressed firms, older firms, and firms that have higher profitability are less likely to communicate discretionary information about their BM in the annual reports.

Table 8.2 Correlation

SDI	**1**													
BMDI	0.541**	1												
Size	-0.42	0.14	1											
ROA	-0.251**	-0.17*	-0.021	1										
Lev	0.02	0.032	0.647**	-0.15	1									
Altman	-0.392**	-0.292**	-0.456**	0.336**	-0.618**	1								
AIS	0.014	0.056	-0.227**	0.164	-0.16	0.08	1							
Pay	0.171	0.4**	0.471**	-0.023	0.352**	-0.394**	0.332	1						
Age	-0.127	-0.195*	0.308**	0.074	0.162	0.129	-0.309**	0.138	1					
Bsize	0.102	0.246**	0.611**	0.068	0.57**	-0.572**	0.081	0.652**	0.033	1				
BIND	0.183*	0.293**	0.328**	-0.063	0.315**	-0.326**	-0.129	0.351**	-0.235**	0.314**	1			
BMEET	0.1	0.075	0.077	-0.218*	0.078	-0.108	-0.184**	-0.05	-0.036	-0.1	-0.198*	1		
Analfol	0.397**	0.274**	0.296**	-0.179*	-0.253**	-0.037	0.291**	0.182*	-0.467*	-0.081	0.196*	0.237	1	
DLOSS	0.1	0.033	0.232**	-0.525	0.225**	-0.171*	-0.487*	0.043	0.125	-0.095	0.14	0.195	0.105	1

Pearson Correlation Matrix. * Significance at 10% level. ** Significance at 5% level. *** Significance at 1% level.

8.4 Regression Results

This section presents and discusses the finding of the regression analysis.

8.4.1 Determinants of Strategy Disclosure in Annual Reports

The result of the regression estimates for model 1-4 in Table 8.3 shows the relationship between Strategy disclosure index and the proxy variables that could explain the disclosure of Strategy. The overall model is significant at $P<0.01$ and explains 35% of the variation in Strategy disclosure level in the annual reports of companies investigated in this study. Table 8.3 shows the regression results for the three categories of incentives that could drive the disclosure of Strategy in annual reports, showing results for both separately and together.

8.4.1.1 Contractual Incentives and the Disclosure of Strategy in Annual Reports

For contractual incentives, finding shows that the coefficient estimate on Altman is negative and statistically significant at 10% level. Thus, hypothesis H3 is accepted. This finding suggests that less distressed firms disclose more information about their Strategy. This finding is consistent with the conclusion of (Ingram and Dugan, 1990). It is also consistent with the argument of signalling theory that managers of 'higher quality or healthier firms' will often attempt to distinguish themselves from less healthy firms by disclosing information that reduces the occurrence of adverse selection (Valera, 2017).

Additionally, Table 8.3 shows that leverage has a negative coefficient that is significant in the contractual incentive model at 0.10 level, relatively indicating that managers in more highly levered companies are less likely to disclose information about their Strategy. This finding is consistent with the results of Meek et al. (1995) for seven studies in the UK and Coebergh (2011) who found a negative but insignificant association between leverage and Strategy disclosure in the Netherlands. Although, agency theory predicts that more highly levered firms disclose more discretionary information, hence, if this assumption is not represented in this finding, then possibly political costs or proprietary costs, rather than agency costs may better explain the discretionary disclosure of Strategy (Meek et al., 1995). Another explanation for the negative findings might be that companies provide private information to 'powerful' lenders privately and not in the annual reports (Meek et al., 1995). Zarzeski (1996).

Furthermore, from the results it is observed that loss has a negative but insignificant association with the disclosure of Strategy. A possible explanation for the negative relationship between loss and Strategy disclosure is that managers have incentives to reveal less information that could help assess reasons for losses and to possibly avoid questioning, reduced compensation and / or redundancy (see Raffournier, 1995; Bloomfield, 2002). Additionally, from signalling theory perspective, because there is no quality (good performance) to signal as a result of the loss, it is most likely that the disclosure of strategy will reduce (Ross,1973).

8.4.1.2 Market Incentives and the Disclosure of Strategy in Annual Reports

For market incentives, finding shows that analyst following is positively associated with Strategy disclosure and statistically significant at 1% level. This result is also reported for the overall model and supports hypothesis H5. This indicates that firms with a higher number of analysts following disclose more information about their Strategy in the annual reports. Lang and Lundholm (1996) explains that analyst following is positively associated to disclosure quality and reduction of information asymmetry according to agency theory (see Healy and Palepu, 2001; Beyer et al., 2010, Varela, 2017).

Interestingly, the result shows that listing age has a positive but insignificant relationship with the disclosure of Strategy. This implies that the length of time a firm has been listed will relatively influence a higher level of the disclosure of Strategy (see Coebergh, 2011). A possible explanation from agency perspective is that managers of older firms will want to protect their reputation and justify higher compensation by disclosing more information and reducing agency costs (see Healy and Palepu). Another explanation from signalling theory is that managers of older firms might want to signal quality by disclosing more information about their Strategy (Watson et al., 2002).

8.4.1.3 Corporate Governance Incentives and Strategy Disclosure in Annual Reports

In the corporate governance model, finding shows that compensation as measured by total pay, has a negatively significant association at 10% level for the overall model. This finding is however interesting as it shows that the claim that Strategy is aligned with incentive might be true. Management often claims that remuneration is based on expertise and skills and aligned with Strategy. "Executive pay rightly continues to be high on the agenda of shareholders and other stakeholders. Shareholders need the comfort that the team running the business is being paid in a way that reflects the performance of the business. There is an alignment between Strategy and incentive plans. The structure of incentives is mostly designed to align with the delivery of short and long-term objectives set out in Strategy, which aligns with shareholder value creation (Morrison A.R, 2014/2015; Sainsbury A.R. 2015/2016)". This result appears to suggest that companies with effective corporate governance systems pay less compensation and disclose more strategy information (Thakor, 2014). This is consistent with agency theory (see Morris, 1987). Surprisingly, there is limited research on the disclosure agency problem.

Further, the result shows that board meeting has a positive but insignificant association with the disclosure of strategy. Although it appears that there is no previous empirical evidence on disclosure agency problem and board meeting (active boards), a possible explanation for the positive relationship between board meeting and strategy disclosure from agency theory perspective could be that boards that meet frequently will have more time to discuss strategic issues, which will in turn influence the level of information disclosed about their strategy and reduce information asymmetry (see Healy and Palepu, 2001). Another explanation from signalling perspective is that firms with active boards will want to signal quality (board diligence) by disclosing more information about their strategy (Morris, 1987; Vefeas, 1999).

Interestingly, there is a mixed result on the relationship between board size and board independence. For board size, the overall model shows a positive relationship but a negative relationship when only the variables under corporate governance are considered. However, these relationships are not significant. A possible explanation for this mixed finding is that apart from the size of the board, other factors such as skills and available information etc., (see Dalton and Dalton, 2005; Abeysekera, 2010), loss, financial distress, leverage, analysts following and listing age could influence the level of strategy information disclosed despite the board size. Depending on the intended outcome such as protection of board reputation, reduction of information asymmetry – agency theory, or signalling quality.

Additionally, for board independence, the overall model shows a negative relationship while the corporate governance model shows a positive relationship. A reason for the mixed results could be that shareholders and creditors acquire strategy information through other avenues (or privately), rather than through public disclosure.

8.4.1.4 Control Variables and Strategy Disclosure

For control variables, this study controlled for profitability and firm size as a determinant of Strategy disclosure based on previous studies on discretionary disclosures.

Finding shows that the coefficient estimates on ROA are mixed (positive and negative) and are not statistically significant in any of the Strategy disclosure models. This finding is consistent with the conclusion of Lang and Lundholm (1993) that the level of perceived information asymmetry between managers and investors influences the relationship between disclosure and profitability. The difference in the results could be that the

Further, Table 8.3 shows that firm size is negatively associated with the level of Strategy disclosure. This finding is statistically significant at 1% level for models 1-3 and at 5% level for the overall model (model 4). The negative association implies that larger companies disclose significantly less Strategy information in their annual reports. Although, firm size has been found to be to be a significant influence in prior disclosure studies (e.g. Meek et al., 1995; Coebergh, 2011); The result appears to support the argument that larger firms are in a better position to "hide" proprietary information, i.e. profitable segments. Another possible explanation could be that the proportion of shares held by executive and independent directors influences the level of Strategy disclosure. It is expected that managerial ownership has a negative association with discretionary information (see Eng and Mak, 2003). Perhaps, future research could investigate the association between disclosure and the proportion of shares owned by directors.

Table 8.3 Regression results for Strategy disclosure

	Contractual		Market incentives		Corp. Gov		All	
Table 8.3	**Regression result for the determinants of Strategy disclosure in annual reports**							
Incentive	**Coefficient**	**t-value**	**Coefficient**	**t-value**	**Coefficient**	**t-value**	**Coefficient**	**t-value**
Contractual:								
Altman	-3.047*	-1.72					-1.959	-0.94
DLOSS	-0.191	-0.06					-3.025	-0.71
LEV	-0.192*	-1.8					-0.122	-1.19
Market:								
Age			2.729	0.91			3.439	1.09
ANALFOL			3.717	2.69***			5.206	2.84***
Corp. Gov:								
BSize					-0.812	-0.14	6.431	1.17
BMEET					0.087	0.22	0.398	0.98
BIND					0.062	0.47	-0.009	-0.07
AIS					0.538	1.12	-0.128	-0.25
PAY					-1.105	-3.94	-3.237	-1.71*
Control Variables:								
ROA	-0.039	-0.49	0.089	0.63	-0.05	-0.66	0.128	0.62
Size	-2.962	-3.09***	-3.834	-3.63***	-3.817	-3.94***	-2.974	-2.21**
Industry dummy		Included		Included		Included		Included
Year dummy		Included		Included		Included		Included
Cons_	132.805	9.99***	97.216	5.33***	144.347	5.82***	87.681	3.472***
Adjusted R Square		0.31		0.36		0.27		0.35
Observation/groups		140/3		140/3		140/3		140/3

Note: * Significance at 10% level. ** Significance at 5% level. *** Significance at 1% level.

8.4.2 Determinants of BM Disclosure in Annual Reports

The result of the regression estimates for model 5-8 in Table 4 shows the relationship between BM disclosure and the proxy variables that could explain the disclosure of BM. The overall model is significant at $P<0.01$ and explains 31% of the variation in BM disclosure level in the annual reports of companies investigated in this study. Surprisingly, it appears that previous studies on the disclosure of BM did not investigate the determinants of such disclosure.

8.4.2.1 Contractual Incentives and BM Disclosure

The result for financial distress in model 1 (contractual incentive) shows a relative significantly positive coefficient at 10% level as measured by Z-score variable. Also, model 4 (overall model) shows a positive but insignificant association between current poor performance and Strategy disclosure. This finding indicates that less distressed firms tend to disclose less information about their BM in the annual reports. Thus, hypothesis H3 is rejected. This finding however is consistent with the conclusion of Miller (2002) and appears to suggest that the pressure of raising support from banks, suppliers, etc., might impose a greater demand for information about future prospects on companies facing financial distress. Also, as discussed earlier, another possible explanation is that investors and creditors of healthier firms acquire information about the company's BM through other means other than the annual reports. This is also consistent with the assumption of agency theory (Meek et al., 1995).

Further, finding shows that the coefficient estimates on leverage is negative and statistically significant at the 10% level for both model 1 (contractual incentive) and model 4 (overall model). In other words, leverage is negatively associated and has a relatively low significance to the disclosure of BM. This implies that firms with higher debts are less likely to disclose information about their BM. This finding is consistent with the results of Meek et al., (1995) and Camfferman and Cooke (2002) who found a negative but insignificant relationship between gearing and disclosure in the UK.

In addition, result shows that loss has a mixed relationship with the disclosure of Strategy. The contractual incentive model shows a negative relationship, consistent with the hypothesis. This implies that firms disclose less BM information when there is a loss. While, the overall model shows a positive relationship, implying that firms disclose BM information when there is a loss. A possible explanation for this difference is the relationship of this proxy (loss) with other proxies in relation to BM disclosure.

8.4.2.2 Market Incentives and BM Disclosure

Finding shows that there is no statistically significant relationship between market incentive variables included in this study (listing age and Analfol) and BM disclosure. However, finding shows that listing age is negatively associated with the disclosure of BM. This means that younger companies disclose more BM information. A possible explanation for this is that younger companies need to boost investor confidence, give information necessary for valuation (see Haniffa and Cooke, 2002). Also, younger firms could signal quality by disclosing more information about their BM (Morris, 1987).

On the other hand, analysts following (Anafol) shows mixed results. A positive relationship is shown in model 2 (market incentives) and a negative relationship under the overall model. A likely reason could be that managers would disclose more or less information about their BM in the annual reports depending on the cost and benefit analysis of such disclosure. It also suggests that the disclosure of BM information in the annual reports is dependent on other incentives that can explain the disclosure or non-disclosure of such information.

8.4.2.3 Corporate Governance Incentives and BM Disclosure

Table 8.4 shows that there is a significantly positive association between CEO's total pay and the disclosure of BM, significant at 1% and 5% level for both model 3 and model 4 respectively. This finding implies that highly paid CEO's are more likely to disclose information about their BM in the annual reports. This is consistent with the conclusion that shareholders link compensation with performance measures that are informative about managerial disclosure activity (see Nagar et al., 2003). However, surprisingly, the results show that CEO's annual incentive scheme has a negative relationship with the disclosure of BM. This implies that the lower the annual bonus, the higher the disclosure of BM. A possible explanation could be that because the annual bonus is linked to profitability, the CEO might want to signal quality even when target is not met (Nagar et al., 2003). It is also consistent with the literature linking quality management with BM framework (Beattie and Smith, 2013).

Furthermore, finding shows that board size and board meeting are positively but insignificantly associated with the disclosure of BM. This suggests that boards with more members disclose more BM information and boards that meet more frequently communicate more BM information. A possible explanation for these results is that larger boards can help to overcome skill deficiencies (Abeysekera, 2010) and make better collective decisions (Dalton and Dalton, 2005).

In addition, the result shows that board independence is negatively but insignificantly related to the disclosure of BM. The result is consistent with the finding of Eng and Mak (2003). This appears to suggest that outside directors play a substitute-monitoring role rather than a complementary role to disclosure. Another possible explanation is that shareholders and creditors are able to acquire BM information directly.

8.4.2.4 Control Variables and BM Disclosure

In relation to control variables, findings indicate that firm size is negatively associated with the disclosure of BM (how value is created, value capture in terms of pricing, processes and delivery etc.) and significant at 1% level for models 1, 3 and 4 and 5% level for model 2. This result shows that larger firms do not necessarily disclose more information about their BM. The possible explanation for the negative association between firm size and the disclosure of BM might be because larger firms depend more on internal funds as a result of an established shareholder base, compared to smaller firms who might need to raise additional capital at the lowest cost. Also, considering that Strategy and BM discussions are valuable and proprietary information (Leung et al., 2015, Coebergh, 2011) larger firms might be more reluctant to disclose the information about their Strategy and BM voluntarily.

Profitability has a positive and only relatively significant in explaining the association between market incentives and BM disclosure (model 2). This result supports the notion of signalling theory and the results of some studies on CSR and social disclosure that managers of well performing firms want to disclose more information to signal their strength (Ahuja (1983) and Balabanis et al., 1998; Belkaoui and Karpik, 1989).

Table 8.4 : Regression result for the determinants of BM disclosure in annual reports

	Contractual		Market incentives		Corp. Gov		All	
Table 8.4	**Regression result for the determinants of BM disclosure in annual reports**							
Incentive	**Coefficient**	**t-value**	**Coefficient**	**t-value**	**Coefficient**	**t-value**	**Coefficient**	**t-value**
Contractual:								
Altman	3.418	1.69*					3.773	1.48
DLOSS	-3.145	-0.83					0.613	0.12
LEV	-0.211	-1.73*					-0.221	-1.76*
Market:								
Age			-2.391	-0.61			-4.372	-1.1
ANALFOL			1.631	0.9			-1.786	-0.8
Corp. Gov:								
BSize					5.263	0.87	10.096	1.5
BMEET					0.304	0.74	0.621	1.25
BIND					-0.013	-0.09	-0.128	-0.83
AIS					-0.635	-1.25	-0.773	-1.24
PAY					5.9	2.74***	4.372	2.14**
Control Variables:								
ROA	-0.044	-0.48	0.338	1.83	0.002	0.2	0.209	0.823
Size	-3.585	-3.27***	-3.38	-2.45**	-2.918	-2.84***	-5.15	-3.13***
Industry dummy		Included		Included		Included		Included
Year dummy		Included		Included		Included		Included
Cons_	130.451	8.57***	96.738	4.02***	51.617	1.964**	68.02	2.2**
Adjusted R Square		0.29		0.26		0.3		0.31
Observation/groups		140/3		140/3		140/3		140/3

Note: * Significance at 10% level. ** Significance at 5% level. *** Significance at 1% level.

8.5 Chapter Summary

This chapter contributes to the understanding of Strategy and BM disclosure by adopting an agency and signalling theory perspective to explain the disclosure of Strategy and BM in the annual reports of UK listed companies. Finding shows that distressed firms, highly levered firms and highly paid CEO's do not necessarily disclose more information about their Strategy in annual reports. However, firms with higher number of analysts following disclose more information about Strategy in annual reports. On the other hand, distressed firms and highly paid CEO's are likely to disclose more information about BM in annual reports. While, highly levered firms disclose less information about their BM.

Interestingly, finding shows that while less distressed firms disclose more information about their Strategy, they (less distressed firms) disclose less information about their BM in the annual reports. The analysis in chapter 7 of this thesis reveals that the information disclosed as Strategy include information on overall Strategy/corporate goal, threats, strategic priorities, risk management, customer segments and products. On the other hand, while disclosing BM information about business activities (i.e., value creation), justification for business, distribution, and resources, firms disclose less BM information that relates to value capture (pricing), investment criteria (value creation framework) and value chain (process description). It appears that the Strategy information disclosed relates more to the width than the depth of information about the insights into the firm's future performance (see Beretta and Bozzolan, 2008). Put differently, much of the BM information appears to be affected by proprietary costs and managers would use their discretion in disclosing such information. Another possible explanation is that the disclosure of BM is far from being a mature practice. This finding is consistent with the conclusions of (Bini et al., 2016; Melloni et al., 2016).

Furthermore, finding reveals that highly paid CEO's do not necessarily disclose more information about their Strategy in the annual reports, but discloses more information about their BM. A possible explanation for this is that remuneration committees adopts a pay structure that works best for the interest of shareholders (Core et al., 1999; Conyon and He, 2011), in which case, a compensation committee might have specified in advance the appropriate disclosures for all future contingencies. This might mean that companies with effective corporate governance systems pay less executive compensation and disclose more information about their strategy. However, this finding appears to suggest that highly paid CEO's might want to signal their quality by disclosing more information about their BM to differentiate themselves from other CEOs' (see for example Watson et al., 2002). This finding is consistent with signalling theory.

The next chapter presents the discussion, summary and conclusion of the thesis, reflecting the conclusion of this intellectual journey. In the chapter, the findings of the study are discussed with a view to seeing how the set objectives have been achieved through providing answers to the research questions put forward. It will also be considering the contribution of the study to the existing literature, the limitations of the study and the identified areas of further studies.

CHAPTER 9 SUMMARY AND CONCLUSION

9.1 Chapter Overview

This last chapter seeks to summarise the thesis and to outline the limitation and suggestions for future research in the area of Strategy and BM disclosure. The most important objective of this chapter is to underline the original contributions of this research on the corporate disclosure literature.

9.2 Summary

The main objectives of the study were set in chapter 1 as follows: The first objective of this study is to develop a comprehensive disclosure framework to evaluate the content of Strategy and BM disclosures in annual reports, and to investigate current practices of Strategy and BM disclosure. The methodological issues of importance here are thus the concepts themselves (Strategy and BM); the identification of underlying themes and their measurement (measured as 1 if disclosed and 0 for non-disclosure). Additionally, this first objective relates to the first and fifth questions in the proposed narratives research framework (Beattie, 2014) 'what is reported and what should be reported'. Thus, the first objective of this study further examines how companies voluntarily disclosed their Strategy and BM in the annual reports between 2006 and 2012 and mandatorily but with discretion of disclosure content between 2013 and 2015. In addition, the components of Strategy and BM that are most and least disclosed are identified. Thereafter, this first objective investigates the effect of regulation (both corporate governance requirement and mandatory requirement) on the disclosure of Strategy and BM. Second, this study examines the potential determinants of Strategy and BM disclosures in annual reports of

UK companies, using regression analysis. These research objectives drive the research questions and findings in Table 9.1.

The problem of information asymmetry and the resulting managers' opportunistic behaviour can partly be resolved through corporate disclosure. The review of literature in chapter 2 suggests that disclosure in line with the strategic view of the business will increase the quality of corporate information disclosed. The quality of such information will be a function both of the width of the disclosures on different topics about a firm's BM and value-creation Strategy and of the depth of the disclosures about the insights into a firm's future performance. In their study, Bini et al. (2016) investigated the quality of the disclosure of BM in the annual reports of companies in the high-technology industries in the UK and found that companies rarely convey their BM information in a manner that communicates their BM story, which involves showing connections among the different components of the firm's BM. The focus of this study however, is not on the quality of the disclosure of Strategy and BM. This study instead, examines the extent of disclosure of Strategy and BM between 2006 and 2015, investigating the changes in the level of such disclosure from one year to another and also among companies in the same industry. The essence of this enquiry is to know the disclosure practice of these companies in periods before the introduction of disclosure requirements, during the Corporate Governance requirement and the mandatory requirement. To see if the movement towards a more mandatory requirement has improved the disclosure of the concepts. Content analysis and descriptive statistics were used to explore this enquiry.

Finding shows that the disclosure level of strategy and BM have improved over the 10-year period. The Corporate Governance requirement for disclosure introduced in 2010 appears to have influenced an increase in the disclosure of Strategy in the annual reports of companies, but not necessarily on the disclosure of BM information. On the other hand, finding suggests that the mandatory requirement introduced from periods after 30 September 2013, have been able to influence an increased level of BM information disclosure in the annual reports.

Although, it is interesting to find that some of the components of both Strategy and BM are often omitted from the disclosure. A possible explanation for the omission of some components of Strategy (e.g., business unit strategy and weaknesses – due to inadequate internal operations) and BM (e.g., value capture, investment criteria and value chain) is that as the literature appears to suggest that a full (depth) disclosure of Strategy and BM may not always be possible depending on the outcome of a cost-and-benefit analysis of such disclosure. Hence, it is the discretion of management to choose what to disclose and what not to disclose. Further, this appears to explain the approach of the UK FRC in the Corporate Governance requirement, 'a comply or explain' principle, and the subsequent mandatory requirement for the disclosure of Strategy and BM – 'a mandatory disclosure requirement without content specification', perhaps, 'a mandatory-voluntary disclosure'. A possible reason for this flexible mandatory regulation that gives the disclosure of Strategy and BM a compulsory disclosure with a discretionary content is an attempt not to jeopardise the competitiveness of the industries.

It is thus expedient to examine other factors that could help understand the disclosure of Strategy and BM apart from regulations. In this study, Agency and Signalling theories were used to explain the disclosure or non-disclosure of both Strategy and BM in the annual reports of companies included in the sample as discussed in chapter 3. The incentives for the disclosure of Strategy and BM investigated in this study include contractual, market and corporate governance incentives.

Optimal contracts have been highlighted as a solution to agency conflicts as a result of information asymmetry. Contracting mechanisms are often used to reduce agency costs and to increase the efficiency of the contracting process. The proxies examined for contractual incentives in this study include; leverage, losses and financial distress (Altman). Although agency theory predicts a positive relationship between leverage and disclosure, previous studies have reported a mixed conclusion on the relationship between leverage and disclosure. The findings of this study show that firms that are highly leveraged disclose less information about their Strategy and BM (a significant negative relationship). A less disclosure of Strategy and BM information in the annual reports of highly leveraged firms appears to suggest that valuable information about Strategy and BM is disclosed privately to shareholders and creditors through other mediums of communication.

In addition, previous studies have found that managers of firms with losses have the incentives to make it harder for investors to identify the information that could affect stock prices and compensation. This current study finds that the disclosure of Strategy is negatively associated with losses, consistent with previous studies. However, there is a mixed result for BM disclosure. The result for Model 1 (contractual incentives) shows a negative relationship while, Model 4 (Model 1-3) shows a positive relationship. The reason for this difference might be as a result of the relationship of this proxy (loss) with other proxies in relation to BM disclosure. Some or one of the proxies might be having an independent effect or not. The implication of this finding is that managers of firms with losses would disclose less or more information about their BM in the annual reports depending on other incentives (contractual, market or corporate governance).

Further, consistent with previous studies, this study concludes that managers of healthier firms disclose more information about their Strategy. A possible reason might be that these managers have optimistic information about the future plans to disclose, are motivated by their performance and might want to signal strength. On the other hand, the finding shows that managers of healthier firms disclose less information about their BM. This appears to suggest that BM information might be disclosed to investors through other mediums, depending on the cost and benefit analysis of such disclosure.

Managers also have market incentives to disclose their private information about Strategy and BM. Managers would disclose information about their Strategy and BM if it increases firm value. Analysts following and listing age are proxies examined for market incentives in this study. Firms with a larger number of analysts tend to disclose more information about their Strategy. This finding is consistent with previous findings that managers perceive analysts as one of the most important groups affecting the share price of their organisations. Interestingly, BM information disclosure appears to be dependent on the relationship between analyst following as a proxy and other proxies included as incentives for such disclosure. Managers would disclose more or less information about their BM depending on other incentives influencing the decision for disclosure.

In addition, firms that have a higher listing age appear to disclose more information about their Strategy in the annual reports. This is different from the conclusions of previous studies on disclosure and listing age. It appears to suggest that older firms signal strength through the disclosure of their Strategy information. However, firms with lower listing age relatively disclose more information about their BM. This might mean that managers of these younger firms would want to increase investors' confidence possibly to raise capital. While, it appears that managers of older firms disclose their BM information to investors through other mediums.

Agency theory postulates that corporate governance mechanisms are significant in explaining the disclosure of Strategy and BM information the annual reports. Good governance system has been seen as a device for establishing efficiency, transparency and accountability. Compensation, board composition, board size and board meeting, are the proxies examined for this incentive. Less paid managers tend to disclose more information about their Strategy in the annual reports. This finding is different from the conclusions of previous studies. A possible explanation is that an effective corporate governance system reduces the compensation of managers and increase the disclosure of strategy. On the other hand, highly paid managers disclose more information about their BM in the annual reports. This appears to suggest that well paid managers signal their quality through the disclosure of BM information.

This study concludes that the number of independent directors determines the disclosure of Strategy in the annual reports depending on the effect of other proxies on board composition. Although, corporate governance proxies show that if there is a higher number of independent directors, the disclosure of Strategy information increases. The conclusions of previous studies on the relationship between disclosure and board composition are also mixed. However, this study finds that firms with a higher number of independent directors disclose less information about their BM. This appears to suggest that firms with a higher number of independent directors communicate BM information to their investors through other mediums.

Further, findings of previous studies on the relationship between board size and board meeting have been mixed. This current study finds that considering corporate governance incentives, a larger board size reduces the level of Strategy disclosure. However, managers would disclose more or less Strategy information depending on the relationship between the size of their board and other variable incentives. On the other hand, this study shows that firms with a higher number of board members disclose more information about their BM in the annual reports.

In addition, this study concludes that boards that meet frequently (active boards) disclose more information about their Strategy and BM in the annual reports. It is assumed that an active board is a diligent board. Previous studies have investigated the relationship between active boards and performance, however, it appears that there is no evidence on disclosure agency problems and active boards.

9.3 Research Questions and Key Findings

Table 9.1 Overview of research questions and answers

Research questions		Findings
RQ1	Has there been any change in the level of Strategy and BM disclosure between 2006 and 2015?	• The disclosure of Strategy and BM is not a new practice that began after the requirement for disclosure. However, companies were disclosing some components of BM often without the use of the term BM. • Overall, a marked increase in Strategy and BM disclosure was identified over the 10 years. • The disclosure level of Strategy and BM reflects the same pattern of disclosure level of BM.
RQ2a	What items of Strategy and BM are most disclosed in the annual reports?	• There was a relatively greater level of dispersion in the disclosure of Strategy and BM before the requirements. • The disclosure of weakness as a result of inadequate internal operations, is the least disclosed Strategy item. • The disclosure of BM items is yet to be a mature practice. BM components such as value capture, investment criteria, entity structure and value chain/process, still needs to be improved upon.
RQ2b	How has regulation been able to influence the disclosure of Strategy and BM?	• Companies did not necessarily disclose more BM information after the corporate governance requirement • There is a relatively positive significant difference in the disclosure of Strategy after the corporate governance requirement. • The mandatory requirement has significantly influenced the disclosure of BM in annual reports • The mandatory requirement has no significant influence on the disclosure of Strategy. • Companies have improved the presentation of Strategy and BM particularly after the Mandatory requirement.

RQ3	What are the determinants of Strategy and BM disclosure in annual reports?	• Analyst following, financial distress, leverage and CEO's remuneration are determinants of Strategy disclosure in the annual reports. • CEO's remuneration, financial distress and leverage are determinants of BM disclosure in annual reports. • Less distressed firms disclose more information about their Strategy but less information about their BM. • This result appears to suggest that companies with effective corporate governance systems pay less compensation and disclose more strategy information. This is consistent with agency theory. However, finding shows that highly paid CEOs' might want to signal their quality by disclosing more information about their BM in the annual reports.

9.4 Summary of Contributions

Having presented the findings of this study, this section presents some of the key contributions of the study to the existing literature in general and narrative reporting in particular. The contributions of this study have empirical, methodological and policy implications. This is the first study to examine the disclosure of Strategy in a mandatory domain, and also using a theoretical lens. It is also the first longitudinal Strategy and BM disclosure study. This study contributes to the understanding of Strategy and BM disclosure, using a longitudinal method to assess the extent of such disclosure, the effect of regulation on disclosure and the possible determinants of such disclosures. It links the accounting literature with Strategy and BM literature and develops a disclosure index that can help inform future research.

At the same time, this study has successfully answered the call to assess the extent of disclosure (Beattie and Smith, 2013), and examine the potential determinants of disclosure, focusing on different industries (Bini et al., 2016). In addition, based on the findings of this study, it is argued that although there is an improved presentation of Strategy and BM information in the annual reports, and the disclosure of Strategy and BM is on the increase, BM disclosure practice is far from being a mature practice. Also, companies and regulators need to be aware of the problem of 'clutter'. Furthermore, the FRC need to be more specific on the disclosure content of these concepts. Also, it is crucial to improve the illustrations among the interactions of BM components, which would help to enhance the understanding of how these components relate in a company's value creation process

9.5 Concluding Remarks and Recommendations for Future Study

This thesis has investigated the disclosure of Strategy and BM practice, in particular, it investigated the trend in such disclosure over a longitudinal period, the extent of such disclosure, the items/components disclosed, the extent of the influence of regulation on such disclosure, and the determinants of the extent of such disclosures. It has shown that companies were disclosing both Strategy and BM before the requirement for disclosure, however, that there was a high level of dispersion in disclosure during the voluntary period.

The finding shows that the management would rather disclose information about external threat than information about weaknesses caused by inadequate internal operations. Additionally, finding appears to suggest that companies with effective corporate governance systems pay less compensation and disclose more strategy information. This is consistent with agency theory. Lastly, it revealed that analyst following is highly statistically significant in the disclosure of Strategy, while, CEO's remuneration is highly statistically significant in the disclosure of BM.

Despite the contributions this study will be making to the existing literature, it is however not without limitations. One limitation is that there are only three industries, and the study was limited to UK companies, this was due to time and resources constraint. Studying longitudinal Strategy and BM disclosure practices in other countries, for example the US and Europe may find different levels and trends in disclosure due to different regulatory regimes and cultures. Additionally, future studies could conduct interviews with representative of companies to obtain a better understanding of the narrative choices of human actors in Strategy and BM disclosures, and the consequences of these choices in the complex information environment. Engagement with companies to gather evidence about managers perception on the importance and value of Strategy and BM disclosure would be very interesting.

Further, future research could examine the longitudinal relationship between Strategy and BM disclosures and capital market variables such as MV/BV or stock prices. This study would be highly significant in investigating the relevance of Strategy and BM information over time. Lastly, the findings in the accounting literature concerning analyst and investor needs, in form of information to help them assess the quality of management are embedded in the BM framework. Thus, there is need for a better linkage between the accounting literature and Strategy and BM literature in order to consolidate knowledge.

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APPENDIX

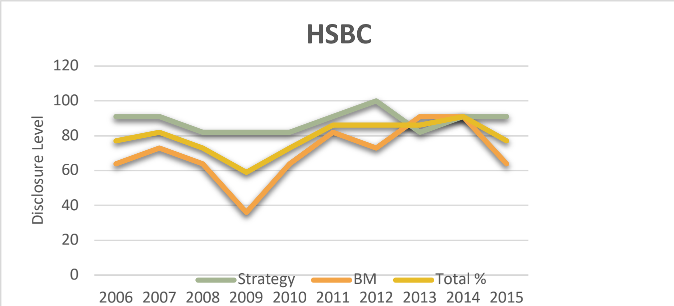
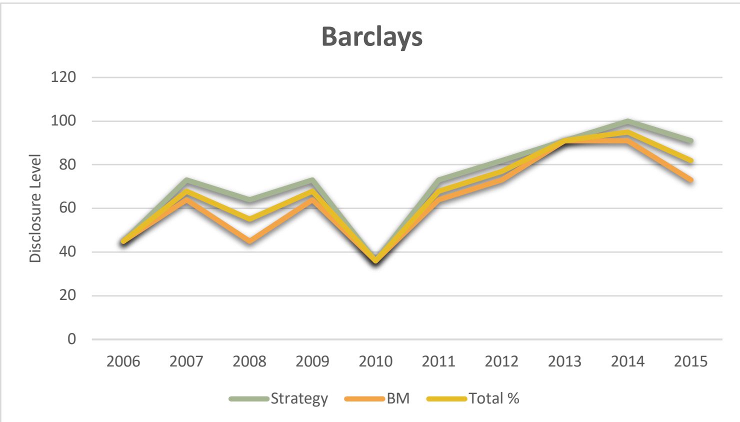


Figure 0.1 Disclosure Level (%) of Strategy and BM



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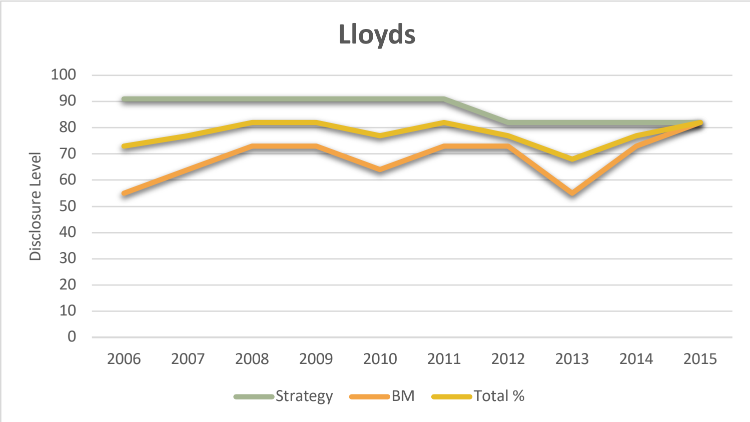

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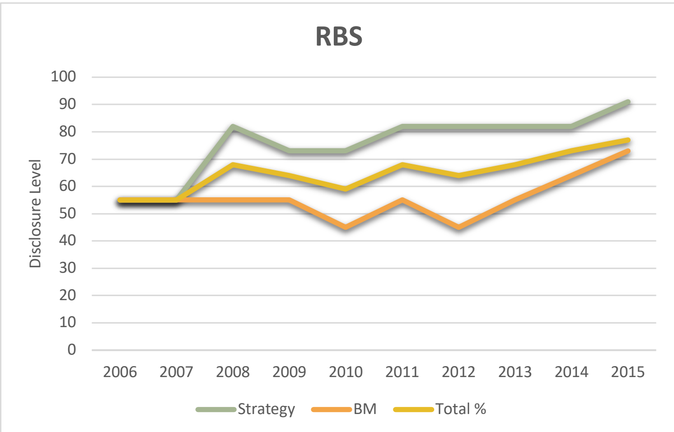
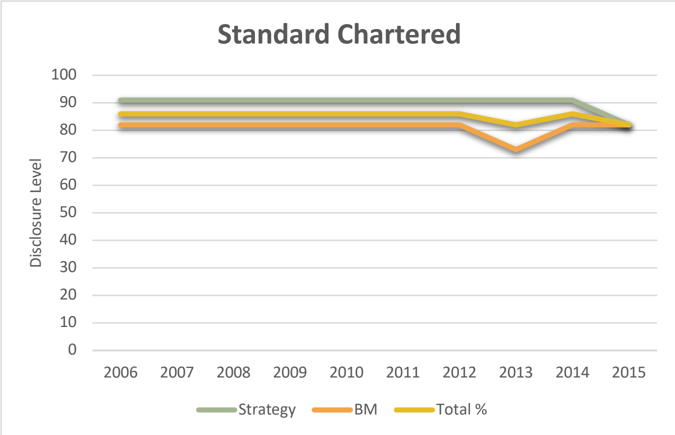


Figure 0.4 Disclosure level (%) of Strategy and BM



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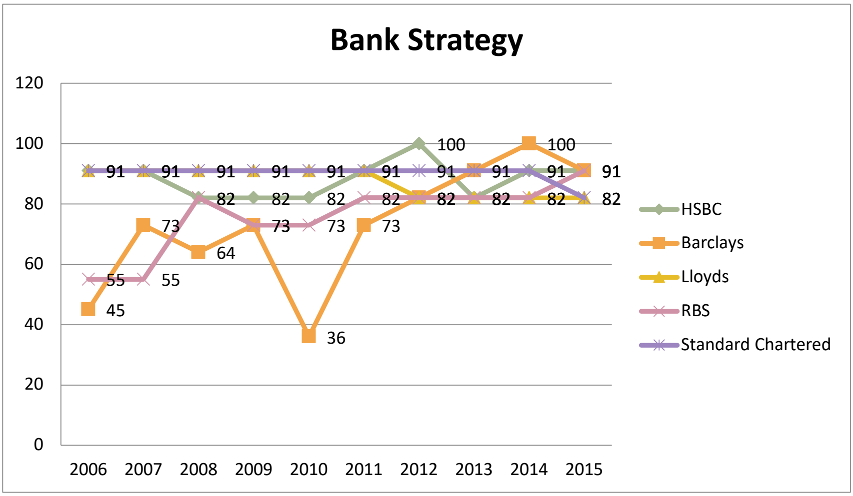

Figure 0.6 Banking Industry Strategy Disclosure

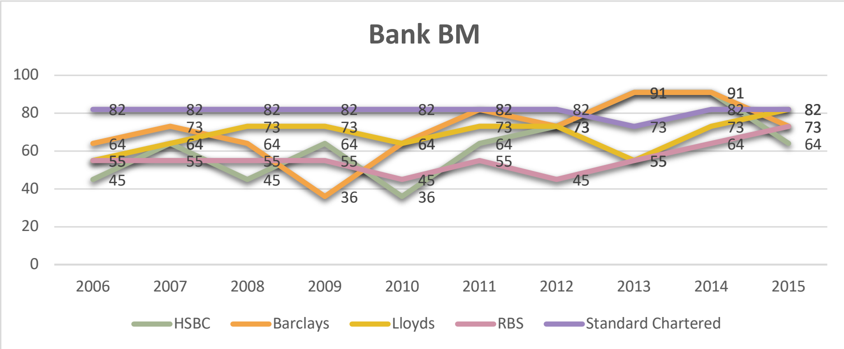

Figure 0.7 Banking Industry BM Disclosure

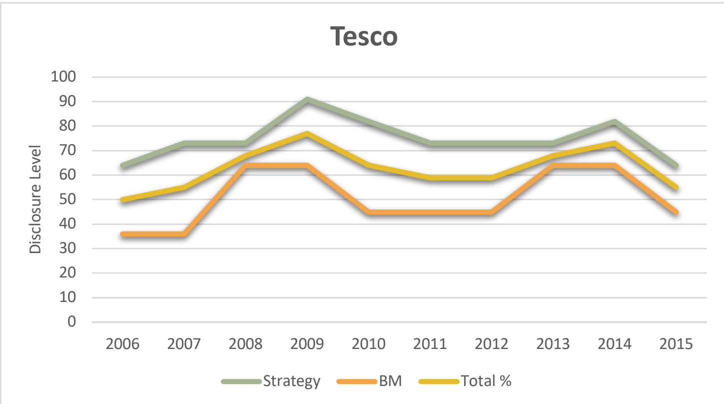

Figure 0.8 Disclosure level (%) of Strategy and BM

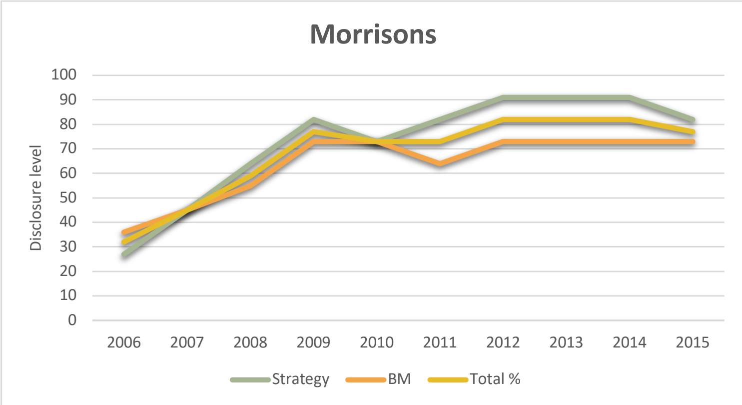

Figure 0.9 Disclosure level (%) of Strategy and BM

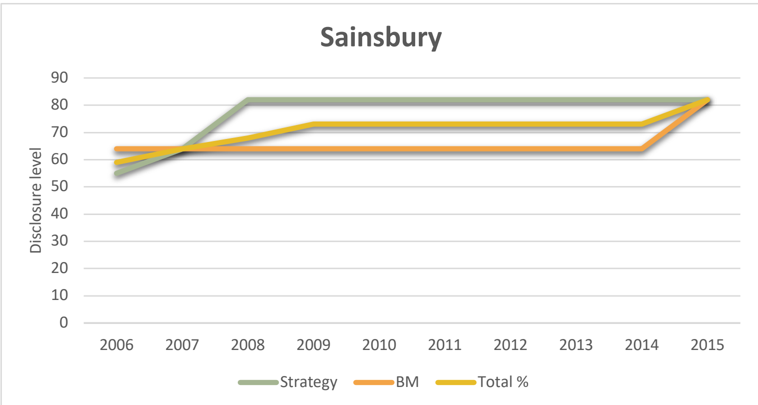

Figure 0.10 Disclosure level (%) of Strategy and BM

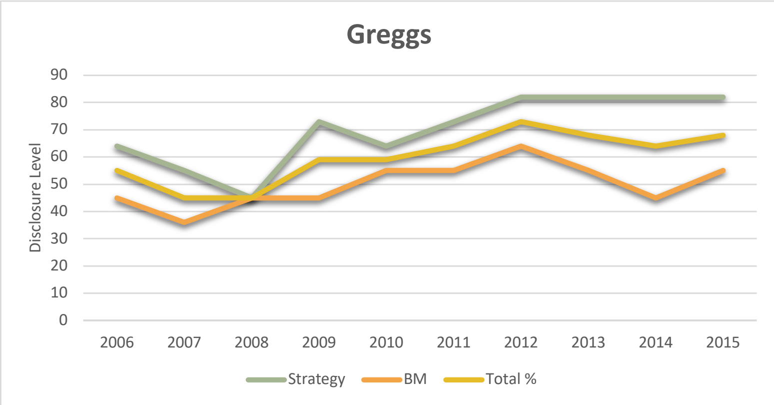

Figure 0.11 : Disclosure level (%) of Strategy and BM

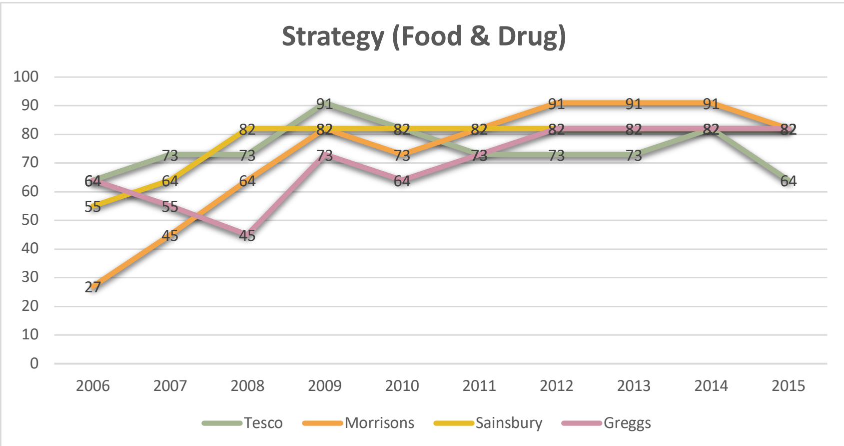

Figure 0.12 Food and Drug Retailers’ Industry Strategy Disclosure

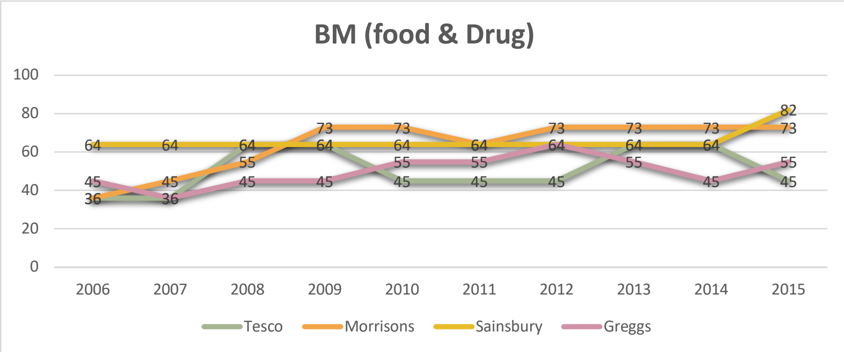

Figure 0.13 Food and Drug Retailers' Industry BM Disclosure

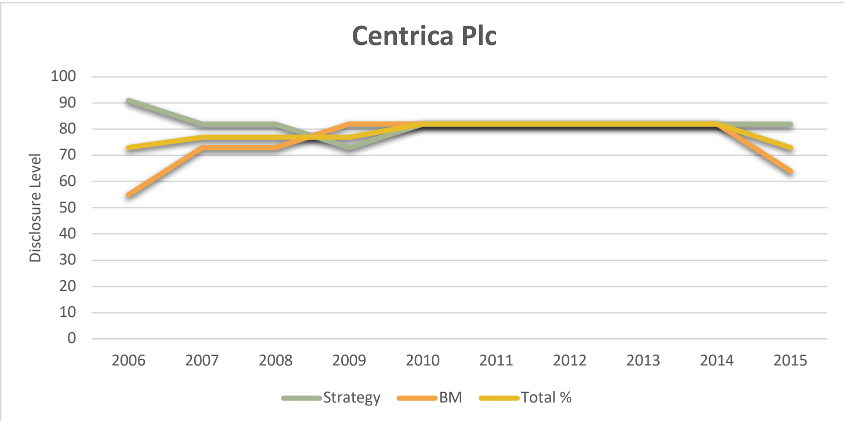

Figure 0.14 Disclosure level (%) of Strategy and BM

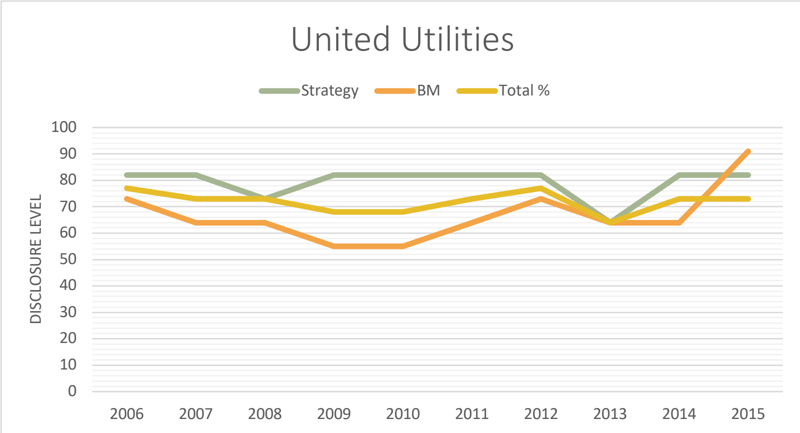

Figure 0.15 Disclosure level (%) of Strategy and BM

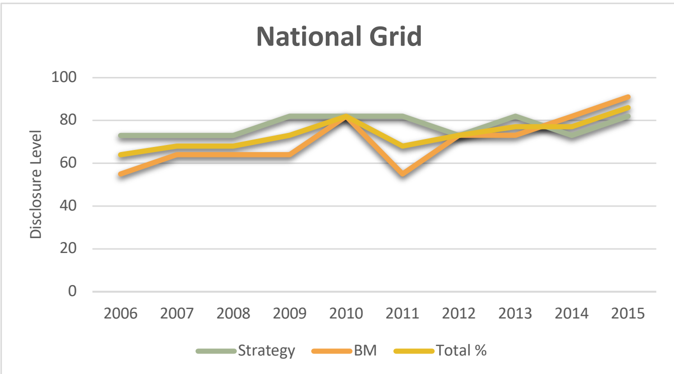

Figure 0.16 Disclosure level (%) of Strategy and BM

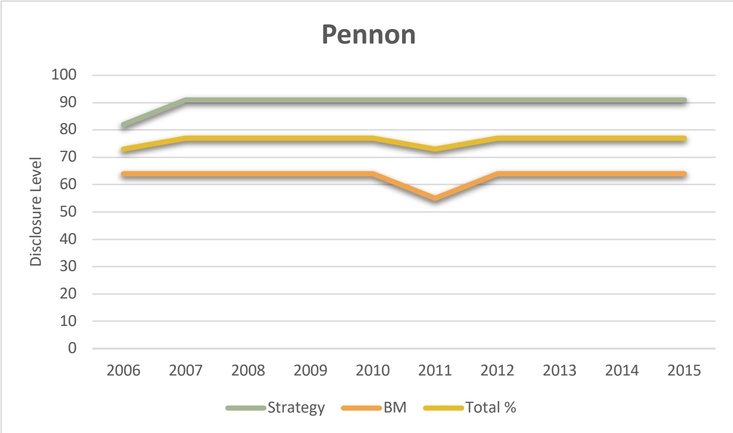

Figure 0.17 Disclosure level (%) of Strategy and BM

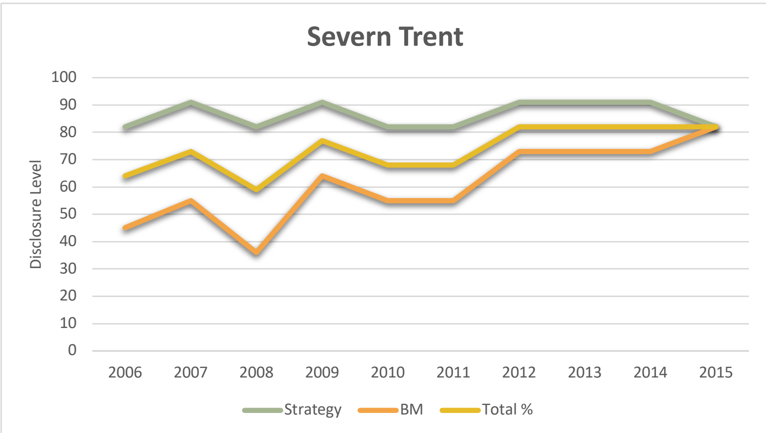

Figure 0.18 Disclosure level (%) of Strategy and BM

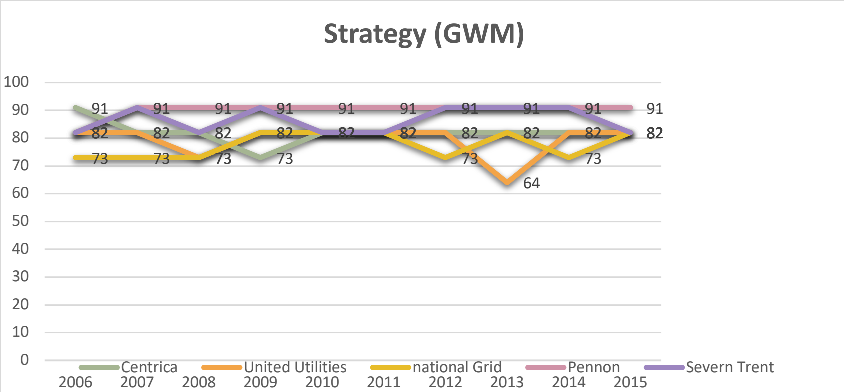

Figure 0.19 Gas, Water and Multi-Utilities Industry Strategy Disclosure

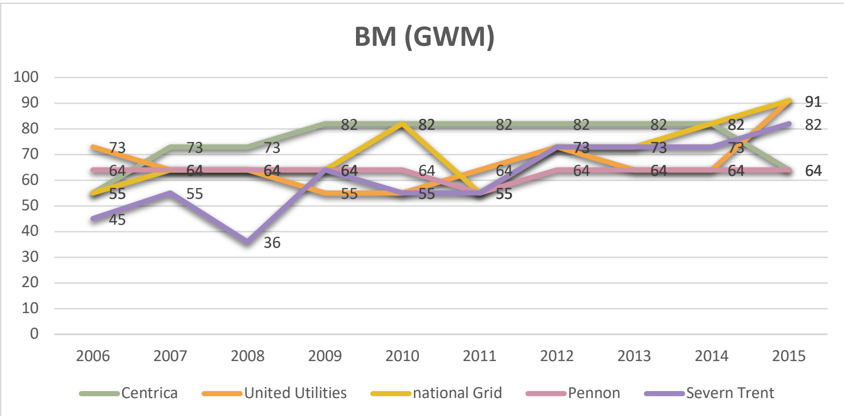

Figure 0.20 Gas, Water and Multi-Utilities Industry BM Disclosure