

The Impact of Information Disclosure Quality on the Cost of Equity Financing

—Based on Time Series Perspective

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How to cite this paper: Yu, G., & Wang, B. Y. (2016). The Impact of Information Disclosure Quality on the Cost of Equity Financing. *Journal of Financial Risk Management*, 5, 107-112.

<http://dx.doi.org/10.4236/jfrm.2016.53012>

Received: July 31, 2016

Accepted: August 28, 2016

Published: August 31, 2016

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Abstract

Listed company information disclosure quality attracts more and more attention to capital subject. Great changes have occurred in the ways and content of information disclosure, and the mainstream has recognized by point of view that the increase of information disclosure quality will reduce the cost of equity financing. Under the background of the different periods of the accounting system, changes in the quality of information disclosure of listed companies will affect the cost of the company's equity in varying degrees from the perspective of time series of listed company information disclosure quality and the cost of equity financing.

Keywords

Information Disclosure Quality, Equity Financing Cost, Time Series

1. Introduction

Though the capital market of our country started late, with the macro policy system of continuous improvement and micro-level capital main body supporting mechanism reform, the capital market has a great development; especially the establishment of the Shanghai and Shenzhen Stock Exchange will continue to inject new vitality to China's capital market. Equity financing as the most important means of financing of listed companies, the cost of financing has become a cost benefit of the company based on the sustainable development which cannot be ignored. The establishment of China's GEM listed companies is compressed shell resource in space, the progress of capital market also continues to enhance investors' awareness to protect their own rights and interests, stakeholders are increasingly sensitive to listed company information disclosure quality

and information disclosure quality request is more and more intense. Listed companies have to consider the effect of information disclosure quality on the cost of equity financing.

2. Literature Review

2.1. Theoretical Research

The asymmetry of information is difficult to measure the quality of information disclosure, so the research on the influence of the quality of information disclosure to the cost of equity financing is theoretical study in the early period. Healy & Palepu (2001) pointed out that the information block and the agent hinder influence the effective allocation of resources in the capital market, and the effective information disclosure can solve the information block and the agent. Barry & Brown (1985) obtained the negative correlation between the expected return variance and the amount of information by theoretical study. Merton (1987) hold view that different quality of information disclosure will affect the company cost of capital from the perspective of information risk premium, and cost of capital has resulted in that high-quality listed companies use excessive information disclosure to expel the inferior listed companies through the transmission mechanism of information in the capital subject. Botosan and Plumlee (2002) collect the three results of the information disclosure, by improving information in the transmission efficiency and the number of different stakeholders reduces the cost of equity capital. There are a lot of literature study the quality of information disclosure on the cost of equity financing path from different angles, Verrecchia (1983) worry about too much disclosure of information leak the financial information, damage the competitiveness of products. Bushee and Noe (2000) believe that the relationship between information disclosure and the volatility of the stock value will increase the cost of equity capital. Information disclosure can reduce the cost of equity financing get most of the recognition.

2.2. Empirical Research

The addition of empirical research has enriched the content of the information disclosure quality on the cost of equity financing, which has resulted in the difference of the research methods and conclusions. Botosan (2002) used the information disclosure index to empirically study the relationship between information disclosure level and cost of equity capital and obtained negative correlation between information disclosure level and cost of equity capital by the number of analysts tracking. Bhattacharya (2003) proved that the lower of the cost of equity capital, the lower of the cost of equity capital on the basis of the other factors are the same by constructing the income opacity indicators. Our country Zeng & Lu (2006) used the residual income model to measure the equity financing cost of listed companies, the high quality of the information disclosure of the company will actively affect the cost of equity financing in the control of beta coefficient, the size of the company, book market value ratio, leverage and other factors. Li & Hui (2008) study the relationship between earnings conservatism and the cost of capi-

tal, draw the negative correlation between earnings conservatism and the cost of capital. Is the special qualifications of China's capital market are in line with the above conclusions? Juanjuan Huang (2006) used issuance of shares of listed companies panel data from 1993 to 2001 as the basis, take the earnings opacity measure information disclosure quality, it is concluded that the information disclosure quality improved reduce the cost of equity capital significantly. Also that contrary to the conclusions of the study, Wenfeng Wu (2007) concludes that the improvement of information disclosure quality does not reduce the cost of equity financing theory on the basis of the whole China investment consciousness, without the information disclosure quality as an investment decision-making the important influence factor.

2.3. Object of Study

In the process of continuous in-depth study the object is also constantly changing. Xiao & Liu (2009) used Shenzhen SME Board of listed companies as the object of study found that corporate information disclosure quality improvement does not reduce the cost of equity financing. Fang (2012) empirical study the Shenzhen GEM listed companies to get the boss company's information disclosure quality and equity financing costs are not significant positive correlation, which has a greater difference with previous research. Subdivision of other industries also have a different conclusion, because of the particularity of China's real estate industry, Sun Ning, Kai Wei Jian (2007) studied China's real estate listed companies from 2005 to 2006 as the data source obtains the information disclosure cost is higher but the cost of equity financing is lower, but Zhu & Jiang (2012) showed that no significant information disclosure quality and the cost of equity financing is negative correlation based on the 2007 to 2009 securities in Shenzhen A shares in the real estate industry as samples using multiple regression analysis.

2.4. Social Responsibility Report

The report of social responsibility is becoming more and more factors that affect the quality of information disclosure, and the quality of environmental accounting information disclosure has become a hot research topic in the past two years. Richardson and Welker concluded that the equity financing costs and social responsibility information disclosure is positively related using regression analysis of the method of research in Canada listed companies, and the better performance of the results obtained the lower significance. China's Yuan (2010) empirical research that the heavy pollution listed companies disclose environmental information to improve the quality of significantly lower cost of equity financing and financial .non-financial information disclosure quality has a great difference of equity financing based on Shanghai in 2008 to 2010 listed shares of heavy polluting enterprises as the source of data. Yuejun Ren, Wenhong Qiao (2016) also reached a similar conclusion. The mainstream viewpoint for the research of identity information disclosure quality improvement can effectively reduce the cost of equity financing, in addition to transform methods of research the subject has not been improved in the process of research, index selection and measure standard in different

studies in literature are close, lack of study on the path choice.

3. Time Series: A New Perspective

3.1. The Selection and Induction of Measurement

The Shenzhen Stock Exchange is on the high degree of understanding in the securities market, Based on capital market in China started late, development is not mature enough, our research in the information disclosure quality variables are selected on the base of Shenzhen stock exchange information disclosure evaluation rating, earnings information disclosure index to replace the information disclosure quality has become a trend, and the choice and application conditions are different on the cost of equity financing variables. **Table 1** shows the common variable selection in the research of the impact of information disclosure quality on the cost of equity financing. In general, the quality of information disclosure as the independent variable, the cost of equity financing as a result of regression analysis methods are recognized and exist in a large number of research based on the control of other variables.

Table 1. The variable selection of quality of information disclosure and cost of equity financing.

Item	Item	Method	Index
Variable selection of quality of information disclosure	Earnings information disclosure index		
	Construction of information disclosure index		
	Evaluation index published by authoritative organizations		AIMR
	Earnings aggressiveness		
	Total income opacity index		Earnings smoothing
	Risk-averse		
	Excellent		
	Shenzhen stock exchange information disclosure assessment rating		Good
	Pass		
	Fail		
Cost variable selection of equity financing	Equity financing capital asset pricing model		
	Three factor model		Effective capital market
	Arbitrage Pricing Model		
	Dividend discount model		Holder for long term
Dividend discount derived model		ONJ, PEG, GLS model	

3.2. View of Time Series

Accounting information disclosure is based on the hypothesis of the enterprise continuous operation, and information asymmetry theory includes not only the contents of information asymmetry but also contains time information asymmetry. Information disclosure quality should not be only a simple linear relationship between the costs of equity financing, we should research the long-term interconnection and interaction analysis on the basis of time series. There are few domestic related researches, [Huang & Xiao \(2006\)](#) found that listed company's equity financing cost is related with five years quality of information disclosure by empirical research, which helps to reduce the cost of equity financing and improve the quality of information disclosure. [Yang Hong & Yang \(2012\)](#) empirically studied time characteristics about the information disclosure and the cost of equity financing using entropy measure, they undertook previous studies based on controlling the variable of operation risk, financial risk, bankruptcy cost, liquidity, firm size, annual variables on the time axis, proved that the quality of information disclosure and the cost of equity financing after two years have different correlation based on economic time axis extension. Their research ensures the consistency of samples, at the same time reduce the number of samples. It makes a contribution to the research of time trends, due to the index selection of sample period only from 2002 to 2004, there is no comprehensive description of China's capital market information disclosure quality improvement effect on the cost of equity financing status now, along with the market economy development accounting system in constantly change, especially in 2006, the new accounting system issued to accounting information disclosure and disclosure quality brought tremendous impact, with the improvement of environmental law and the environmental protection awareness of social groups, the quality of information disclosure will also affect investors' decision making.

3.3. The Theoretical Basis of Time Series Analysis

The time series analysis is based on the observation of the variables of a process at different times, using the corresponding model to analyze and predict the observation data. The time series analysis applied to information disclosure quality and the cost of equity financing analysis, according to the statistical indicators of both time sequence formation sequence editing and analysis, through time series introduced to reflect the trend of cost of equity financing on the quality of information disclosure, prediction is introduced to study.

4. Conclusion

The transition of market economy in China has reached a crucial stage and deepwater areas, and capital subject to the quality of information disclosure requirements is very sensitive. Based on asymmetric information theory and the principal-agent theory, information transparency reduces the friction between the interests of the main body, and improves the liquidity of the stock. The quality of information disclosure of listed companies has become one of the weight factors of equity financing cost. The research

should be based on the time series of reform under the background of continuous improvement that the establishment of time series analysis about information disclosure quality and the cost of equity financing improves the theory of corporate governance. Through a nonlinear relationship description, the time of information disclosure quality and time control of different industries and different enterprises information disclosure affect the quality of information disclosure, and then affect the cost of equity financing.

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