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Potential Benefits of Corporate Disclosure through Web

Abstract

In the recent times, Internet has spread its wings in all parts of the world and in all walks of life. India and Indian corporate sector has not been exception to this phenomenon. A large number of corporate and non-corporate entities have launched their Web sites and are disclosing various types of information useful to the investors. Corporate disclosure through Web is a concept that has gained popularity in the recent times and companies' have focused their efforts on the investor more than ever before. The key to success of disclosure through Web is to understand the information needs of the investor in the right perspective and hence satisfy them. An effort has been made in this research to study the Potential benefits of corporate disclosure through Web.

Keywords: Disclosure, Corporate Sector, Web Sites, Information, Investor.

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Introduction

The terms corporate disclosure through web (also known as Internet Financial Reporting or online reporting) has been defined in different ways by different authors. According to Financial Accounting Standard Board (FASB, 2000), "Internet Financial Reporting can be classified as IFR-content and IFR-presentation. IFR – content means disclosure of a complete version of the hard copy annual report in the website, while IFR – presentation means disclosure of those equivalent of the print format of the annual report to enhancements not available in the paper paradigm (i.e. graphics, interactivity, etc.)". Similar views have been expressed by Debreceny et al. (2002), who defines it as a dissemination of corporate information using Internet technologies such as World Wide Web (WWW). IFR can be characterized as (i) solely another distribution channel for existing printed material, (ii) having the ability to interact with internet technologies such as Web browsers and search engine or (iii) providing enhanced or expanded information that could not be cost effectively (or even possibly) produced in paper form and which may be interrogated using interactive analysis tools (IASC, 1999). It emerges from these definitions that corporate disclosure through web means use of the internet for the dissemination of corporate information to the stakeholders. Figure 1.3 exhibits the process of corporate disclosure through web.

The Emergence of Internet as a Medium for Corporate Disclosure

The Internet (short form for Inter network) is a technology, which allows the connection of sub networks and computer using disparate technologies to communicate via a single computer language or protocol called Transport Control Protocol / Internet Protocol or simply TCP/IP. The Internet began in 1970 by the US Department of Defence as a Computer network project of the Advanced Research Project Agency (ARPA). The project was named ARPAnet, and linked computer networks at several universities and research laboratories in the United State (Computer world, 2001). The ARPAnet was then commercialized by the invention of the World Wide Web (WWW) developed in 1989 by an English computer scientist Timothy Berners Lee for the European Organization for Nuclear Research – CERN (eWeek, 2003). The World Wide Web (WWW) is a system within the Internet which allows easy access by unsophisticated, non-specialists users using "hypertext" or linking system across the vast range of information provided on and accessed on the WWW by using a uniform resource locator (URL), an "address" which allows the web client to link up with the information required.

Three Stages of Corporate Disclosure through Web

As is the case in other countries, the use of web as a medium to disseminate corporate information in India has a short history. In such a short period, this interactive medium of disclosure has made a remarkable progress from the stage of scanned version of printed annual reports to the

use of latest web technologies that enhance the usefulness of corporate disclosure. Heldin (1999) and IASC (1999) describe following three stages of corporate disclosure through web.

Stage I

In this stage, companies provide their current corporate annual report (including the balance sheet, profit & loss account, notes, cash flow statement), reports of previous years, Interim reports and environmental and/or social reports in an electronic format. This is inexpensive and straight forward process. Here, the Internet is used as a medium to provide information that is already available through other sources. Although the information provided is likely to be relevant to investors, mostly the information provided and the structure in which the information is presented are not specifically aimed at investors.

Stage II

In this stage, companies take the time and effort to convert their printed reports into HTML. This indicates that companies are serious about using the web as an information distribution medium. Companies provide press releases, financial calendars, share prices, the organizational structure and external links. In terms of content and structure the information is specifically aimed at investors and the Internet is used as a medium to combine information available through other sources, so that investors may be better informed.

Stage III

In the third stage of Internet investor relations, companies use distinctive features of the Internet that enable them to contact or inform investors in ways that were hardly possible using traditional communications channels. In this stage, companies move beyond the printed documents paradigm. The annual reporting sites of Intel, IBM and Microsoft are examples of reporting at stage III. The specific relations features may take various forms:

The Use of Presentation Advantages of the Internet

These include the possibility of providing hyperlinks and internal search engines, the use of cookies, and the presentation of data in time series or different formats so that the information provided may be processed further. Also, the homepages may be multilingual.

Direct Contact via e-mail and Mailing Lists

Here, companies provide e-mail access to the investor relations department, regularly updated information to mailing list subscribers, answers to frequently asked questions, and an online investor information order service.

Video or Audio Recordings of Meetings and Online Participation in Meetings

Here, companies allow investors to view presentations by company executives to listen to audio recordings of presentations and to participate in online meetings.

Each stage of corporate web disclosure has its own merits and demerits. Table 1.1 describes the merits and demerits of three stages of corporate disclosure through web.

Table-1.1 Stages of Corporate Disclosure through Web

Stage	Characteristics	Merits	Demerits
Stage I	Duplicates the printed financial statements in "Electronic paper" (e.g., Adobe's Acrobat)	• Has familiar look of printed report	• Needs Plug-In • No Hyperlinks • Cannot be indexed in search engines
Stage II	Uses HTML formatting, data downloading	• Can hyperlink • Can Index	• Graphic files not automatically saved when HTML page is saved. • Can get lost in hyperspace
Stage III	Uses enhancements that cannot be incorporated in printed documents	• Provides alternative ways to present complex information	• May require plug-ins for some enhancements • May lead to information overload.

Source: Business Reporting on the Internet, IASC, 1999

Review of Literature

Even through various IFR studies had been carried out, there are still IFR issues that demand further research. Xiao et al. (2004) studied the factors (company size, auditor size, foreign listing, ownership diffusion, profitability, leverage and type of industry) behind 300 Chinese listed companies' voluntary adoption of Internet reporting. The results revealed that size was positively associated with financial disclosure on the web and profitability was negatively associated with Internet financial disclosure. The auditor size and nature of industry were also significant. Other variables were not significant.

Chatterjee and Hawkes (2008) explored the differences in the accessibility of website information between New Zealand and Indian companies. A comparison of the websites of New Zealand and Indian companies suggests that Indian companies are lagging behind the New Zealand companies in regard to reporting some attributes of investor information such as interim reports, stock quotes and annual reports. On the other hand, Indian companies provide more analytical information, such as financial ratios, compared to New Zealand companies. Significant variations have been observed in the structure of websites, the level at which information was accessible within the websites and the terminology used. Findings suggest that variation in web design and the information disclosed, reduces accessibility

and provides the possibility of confusion while trying to compare information across companies.

Arussi et al. (2009) examined the effect of company size, profitability, financial leverage and industrial classification, on the extent of web disclosure, by leading 97 companies traded under Kuala Lumpur Composite Index (KLCI) on Bursa Malaysia. The results suggested some evidence regarding the association of web disclosure with firm characteristics. Company size and financial leverage were found to influence the extent of Internet disclosing of some items of financial information. There was no significant association between profitability and industry classification and extent of Internet disclosure.

Khan (2011) investigated the relationship between Internet Financial Reporting (IFR) with contingency factors and firm specific characteristics. Based on multiple regression analysis, the findings showed that three main firm specific characteristics influenced the level of IFR i.e. firm size, listing period and return on equity. The findings also showed that there was a negative relationship between profitability ratio and dimension of content and overall index of IFR.

Henchiri (2011) made an attempt to identify the determinants influencing the quality of financial information on the web sites of top 91 companies, listed on the Tunishia stock exchange. The determinants of web site quality were found to be the accounting performance and the proportion of shares held by foreigners. Website quality was also linked to firm size. Apart from these characteristics, no effect of the economic sector, the country or market performance could be detected.

Oyelere and kuruppu (2012) investigated key determinants of the use of the Internet as a channel for voluntary disclosure of financial information by 132 companies, listed on two stock exchanges (the Abu Dhabi Securities Exchange and the Dubai Financial Market) in the emerging economy of the UAE. The results indicated that firm size and leverage were the key determinants of the voluntary adoption of Internet financial reporting. However, other traditional firm cha racteristic, such as profitability, industry and liquidity did not explain the choice of the Internet for corporate financial disclosure.

Basuony (2014) examined the determinants and characteristics of voluntary internet disclosures by listed companies in Saudi Arabia and Oman. The results of this study revealed that firm size is the major influencing factor that impacts internet financial reporting. Large firms tend to disclose more financial information in order to reduce information asymmetry and also reduce agency costs. Also, the more exposure large firms are subjected to, leads to the firms being under higher pressure to disclose information.

Drake (2015) analyzed user access of SEC filings, hosted by EDGAR, to better understand the extent, timing, and determinants of investor information acquisition and to provide evidence on the consequences of investor information acquisition for stock price formation. Findings suggested that EDGAR activity was positively associated with firm events, poor stock performance, and the strength of the firm's information environment.

Sushila and Amol (2016) investigated the web-based reporting of Indian hotel industry and analyzed the pattern and determinants, influencing the web-based reporting. Study established the association between web-based reporting and the various determinants. Results revealed that web-based reporting was significantly related to the size, liquidity, profitability and productivity of the hotels. Information symmetry and online reporting via internet technology facilitate various stakeholders.

Sanad and Musleh Al-Sartawi (2016) investigated the relationship between corporate governance and internet financial reporting, for the companies, listed in Bahrain bourse. The findings indicated that the relationship between corporate governance and internet financial reporting was weak due to the fact that the board characteristics did not affect the level of disclosing information via the internet (IFR). However, the board size and big companies recorded positive relationship with IFR. The study recommends that regulatory bodies should develop a guideline of disclosing information, through the internet, in order to enhance the corporate transparency level among Bahrain listed companies.

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Statement of the Problem

The main purpose of the study was to identify the potential benefits of internet corporate financial reporting in India .

Need of the Study

Majority of previous studies describes only the current situation of internet financial reporting for Indian listed companies, without examining empirically its major explanatory variables. The number of factors examined as potential predictors of levels of internet financial reporting in previous studies varied. Some researchers examined only one determinant such as firm size (Allam and Lymer, 2003). Other researchers examined two determinants such as firm size and percentage of free float (Pirchegger et al., 1999) or firm size and industry classification. Further, the number of factors, that drive firms to use electronic reporting in these studies, is not identical. These factors include firm characteristics (i.e. size, industry classification, profitability, financial leverage, percentage of free float, foreign listing auditor size, etc.), and corporate governance characteristics (i.e. ownership diffusion, board composition, and board experience, etc.). However, the results are often mixed.

Research Methodology

Universe of the Study

The objectives of research required the study of both investors and websites of companies. Hence the study was conducted and framed in two parts.

For investor, the universe will comprise the total of 300 financial analysts, chartered accountants and the educated and Internet savvy investors of major cities of Punjab (i.e. Amritsar, Jalandhar, and Ludhiana), Union Territory of Chandigarh, and NCT of Delhi.

For websites of companies, the universe will comprise of BSE-100 index for the year 2011-12 .

Sampling and Data Collection

Commensurate with the objectives of the study, data on various variables of interest was obtained from primary as well as secondary sources. In order to collect the primary data, a structured questionnaire was prepared regarding various aspects of corporate disclosure through web. The questionnaire was on the basis of intuition, previous literature and discussion with the experts in the field. All the questions were close ended. The questionnaire was pre-tested on 25 respondents, who were active in using web for buying and selling the securities. The questionnaire was administered to 300 respondents from Ludhiana, Jalandhar, Amritsar and Chandigarh. However, 232 respondents from various professions successfully completed the questionnaire and returned the questionnaires. Thus, the sample represented a response rate of 77.33%. The judgment sampling was adopted in selecting the respondents because only those were to be contacted who were using the web frequently for trading the securities. Judgment sampling is justified for exploratory studies (Churchill, 1979). The respondents belonged to different locations, gender, age, education levels, professions and income groups. Table 1.2depicts the distribution of the sample on various demographic factors.

Table- 1.2 Demographic Profiles of the Respondents

Demographic Variables		No. of Respondents
Location	Ludhiana	78 (33.63)
	Jalandhar	58 (25.00)
	Amritsar	38 (16.37)
	Chandigarh	58 (25.00)
Gender	Male	180 (77.58)
	Female	52 (22.42)
Age	Up-to 30 years	162 (69.82)
	31-45 years	47 (20.25)
	46-60 years	13 (05.60)
	Above 60 years	10 (4.31)
Education level	Secondary school	12(5.17)
	Bachelor's Degree	76(32.75)
	Master's Degree	72(31.03)
	Doctorate Degree	18 (7.75)
	Professional Degree	54(23.27)
Profession	Professional	97 (41.82)
	Academic	51 (21.98)
	Self-employed	34 (14.65)
	Manager / Executive	27 (11.64)
	Retiree / Housewife	7 (3.01)
	Other	16 (6.89)
Monthly Income (In Rs.)	Less than 5000	22 (9.48)
	5001 – 10000	118 (50.86)
	10001 – 15000	42(18.11)
	15000 – 20000	26 (11.20)
	More than – 20000	24 (10.35)

(Figures in parenthesis show percentages)

Table 1.2 shows that of the 232 respondents surveyed, 78 (33.63%) are from Ludhiana, 58(25%) from Jalandhar, 38(16.37%) from Amritsar and 58 (25%) from Chandigarh. Table also depicts that the vast majority (77.58 %) of the respondents were male and only 22.42 percent of the sample were females with 69.82 percent of the respondents from the age group of up to 30 years, 20.25 percent from 31-45 years, 5.60 percent from the age group of 46-60 years and only 4.31 percent were from the age group of above 60.Thus, majority of the respondents, that is, 95.67 percent of the sample, were from the young and middle age group. About 5.17 percent of the respondents were under-graduates, 32.75 percent were graduates, 31.03 percent were post-graduate, and 31.02 percent were having doctorate or professional degrees. Around 41.82 percent of the respondents were professional, 21.98 percent were academicians, 14.65 percent were self-employed, 11.64 percent were managers / executives, 3.01 percent was either retirees or housewives and 6.89 percent were from others category. While 9.48 percent of the respondents had monthly income of less than Rs. 5000, 50.86 percent had between Rs. 5001-10000, 18.11 percent had between Rs. 10001-15000, 11.2 percent had between Rs. 15001-20000, and 10.35 percent had monthly income of more than Rs. 20000. Thus, the sample is widely distributed and representative in terms of age, sex, education and profession.

The Internet provides numerous benefits for disseminating information to stakeholders. It is a platform that exhibits distinctive and attractive features that make it an effective option when compared with the traditional platform of distributing corporate information (Petravick and Gillet, 1996).

Now-a-days companies have started the use of Internet to inform the present and potential investors and also the other stake-holders with regard to company information. Studies conducted by various researchers (Lymer, 1997; Marston and Leow, 1998; Deller et al., 1999; Pirchegger et al., 1999; Ettredge et al., 2002; Marston, 2003; Lodhia et al., 2003; Pervan, 2005; Mariq, 2007; Khan et al., 2008; Bogdan and Pop, 2008; Desoky, 2009; Lai et al., 2010; Yap et al., 2011; Sharma, 2013) have proved that there has been rapid adoption of the web for the dissemination of corporate information. Internet is now a single medium that offers lot of potential benefits as compared to other traditional mediums of disseminating corporate information. In order to analyze the utility of Internet financial reporting, twenty eight statements describing its probable benefits was prepared. The respondents were asked to express their level of agreement/ disagreement on a five point Likert scale ranging from 'strongly agree' to 'strongly disagree', with respect to each statement. The Weighted Average Scores (WAS) for each statement were calculated by allocating the weights 5,4,3,2,1 to the responses 'strongly agree', 'agree', 'neutral', 'disagree' and 'strongly disagree' in that order. Responses with respect to simple frequencies and WAS are shown in Table 1.3

Table- 1.3 Potential Benefits of Internet Financial Reporting

Codes	Statements	SA	A	N	D	SD	WAS
S_1	It provides in expensive information to users.	138	84	6	2	2	4.525
S_2	It promotes transparency.	126	80	22	2	2	4.405
S_3	It helps in the valuation of corporate securities by providing real-time information.	114	92	20	2	4	4.336
S_4	It makes investment decision making process easier and fastest.	108	90	28	4	2	4.284
S_5	It attracts potential customers.	109	88	27	6	2	4.275
S_6	It helps in assessing sectoral performance.	100	94	24	12	2	4.198
S_7	It helps in assessing the nature of entity's business and products.	79	108	33	6	6	4.068
S_8	It will facilitate direct access to company's database by users.	96	91	37	6	2	4.176
S_9	It increases the usefulness of financial and business information by the way of link of investor relation section to other websites.	135	70	23	2	2	4.439
S_{10}	It has the ability to communicate with previously unidentified users of information.	128	69	23	10	2	4.340
S_{11}	It is the best way for private and foreign shareholders to exercise their voting rights.	114	72	26	18	2	4.195
S_{12}	It lowers the barriers for financial statement users.	118	87	21	4	2	4.357
S_{13}	It is considered to be the best medium for foreign investors to collect all publicly available information.	118	77	27	4	6	4.280
S_{14}	It provides up-to-date information.	134	66	22	8	2	4.389
S_{15}	It provides future oriented financial information.	108	82	22	14	6	4.172
S_{16}	It is helpful for making comparisons over-time.	99	95	24	8	4	4.204
S_{17}	It increases management credibility.	105	95	26	2	4	4.271
S_{18}	It improves access to new capital.	134	62	30	4	2	4.387
S_{19}	It reduces share volatility.	87	76	57	10	2	4.017
S_{20}	It has the ability to present the information using accounting conventions, formats or currencies from other countries.	93	91	38	8	2	4.142
S_{21}	It facilitates interaction and allows feedback.	120	94	10	6	2	4.396
S_{22}	It will improve governance.	79	106	39	4	4	4.086
S_{23}	It provides non-financial information.	98	100	28	4	2	4.241
S_{24}	It will be used by companies to meet the challenges of business globalization.	81	90	55	2	4	4.043
S_{25}	It makes the information attractive.	113	84	29	2	4	4.293
S_{26}	It allows users more easily to relate financial information to non-financial information.	116	74	32	8	2	4.267
S_{27}	It improves equality of information access.	119	84	21	4	4	4.323
S_{28}	It will make the job of financial analyst's easier.	93	86	39	12	2	4.103

The Table 1.3 shows that a significant majority of the respondents (95.69%) have shown agreement with the statement S_1 'provides inexpensive information to users' (WAS-4.525). This has been followed by statement S_9 'increase the usefulness of financial and business information by

the way of link of investor relation section to other websites' (WAS-4.439); statement S_2 'promotes transparency' (WAS-4.405); statement S_{21} 'facilitate interaction and allows feedback' (WAS-4.396); statement S_{14} 'provides up-to-date information' (WAS-4.389); statement S_{18} 'improves access to new capital' (WAS-4.387); statement S_{12} 'lowers the barriers for financial statement users' (WAS-4.357); statement S_{10} 'ability to communicate with previously unidentified users of information' (WAS-4.340); statement S_3 'helps in the valuation of corporate securities by providing real-time information' (WAS-4.336); statement S_{27} 'improves equality of information access' (WAS-4.323); statement S_{25} 'makes the information attractive' (WAS-4.293); statement S_4 'makes investment decision making process easier and fastest' (WAS-4.284); statement S_{13} 'considered to be the best medium for foreign investors to collect all publicly available information' (WAS-4.280); statement S_5 'attracts potential customers' (WAS-4.275); statement S_{17} 'increases management credibility' (WAS-4.271); statement S_{26} 'allows users more easily to relate financial information to non-financial information' (WAS-4.267); statement S_{23} 'provides non-financial information' (WAS-4.241); statement S_{16} 'helpful for making comparisons overtime' (WAS-4.204); statement S_6 'helps in assessing sectoral performance' (WAS-4.198); statement S_{11} 'best way for private and foreign shareholders to exercise their voting rights.' (WAS-4.195) ; statement S_8 'facilitates direct access to company's database by users.' (WAS-4.176); statement S_{15} 'provides future oriented financial information' (WAS-4.172); statement S_{20} 'has the ability to present the information using accounting conventions, formats or currencies from other countries' (WAS-4.142); statement S_{28} 'make the job of financial analyst's easier' (WAS-4.103); statement S_{22} 'will improve governance' (WAS-4.086); statement S_7 'helps in assessing the nature of entity's business and products.' (WAS-4.068); statement S_{24} 'will be used by companies to meet the challenges of business globalization' (WAS-4.043); and statement S_{19} 'reduces share volatility.' (WAS- 4.017).

Conclusion

The above analysis reveals that the potential benefits in order of their importance, present in this study are:

1. Inexpensive information to users
2. Increased usefulness of financial and business information
3. Promotes transparency
4. Interaction and feedback
5. Provides up-to-date information
6. Improves access to new capital
7. Low barriers for financial statement users
8. Ability to communicate with previously unidentified users of information
9. Valuation of corporate securities by providing real-time information
10. Improvement in equality of information access
11. Attractive information
12. Easier and Fastest investment decision making process
13. Best medium for foreign investors
14. Attracts potential customers.
15. Increases management credibility
16. Easy relation of financial information to non-financial information
17. Non-financial information
18. Making comparisons over time
19. Assessment of sectoral performance
20. Best way for private and foreign shareholders to exercise their voting rights
21. Facilitate direct access to company's data base by users
22. Provides future oriented financial information
23. Financial information in alternative formats
24. Improved governance
25. Assessment of the nature of entity' s business and products

The potential benefits which have got mixed response in the present study are:

1. Usefulness for companies to meet the challenges of business globalization.
2. Reduces share volatility
3. Helpful for financial Analyst

The findings of this study are consistent with the findings of Salleh et al., (2002), Beattie and Pratt (2003), Quagli and Riva (2005), Singh (2010), Khan and Ismail (2012), El-Naby and El-Fattah (2012), and Khan and Ismail (2012c) who also found the similar potential benefits of internet financial reporting.

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