WEB-BASED BUSINESS REPORTING: THE INFLUENCES DRIVERS

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ABSTRACT

Web-based reporting is the reporting of financial and non-financial information provided by companies through the medium of corporate websites. Web-based reporting includes information of either a financial or non-financial nature that is not normally incorporated in the printed form of companies’ annual reports. Web-based reporting is vital for the corporate sector in presenting and disseminating business information to the stakeholders. Among the advantages of Web-based reporting compared to traditional paper-based reporting are innovative presentation of information, dynamic multimedia formats, wider and easier access to information for larger groups of users without selection, creating interest to potential investors and boosting corporate image, providing timeliness and interactive information with unlimited space as well as the faster and lower cost of information dissemination. Previously, the practice of Internet reporting in Malaysia was voluntary in nature, thus, leads to a lack of uniformity among companies in Malaysia in terms of the information disclosed and the way the information is presented. The inconsistencies of Web-based reporting practice among companies further raised problems of companies’ uncertainty concerning what information is to be displayed, difficulties to users in locating and finding information on corporate websites and difficulties to the regulators in tracking, monitoring, comparing and assessing Internet reporting practise of the companies. On 3rd of August 2009, Bursa Malaysia introduced a new listing rule under Bursa Malaysia Listing Requirement, Chapter 9, Paragraph 9.21 that requires the Malaysian public listed companies to have their own corporate websites. However, the new regulation can be said to be general, as the regulation does not mention the specific attributes of Web-based reporting that need to be presented on the corporate websites of the companies. Consequently, uniformity of Web-based reporting practice in Malaysia is still difficult to achieve. Thus, problems faced by companies, users and regulators may continue to arise. The inconsistency of Web-based reporting practice by Malaysian companies is expected to be caused by certain factors that influence the level of Web-based reporting practiced. This study intends to look into the specific company characteristics that influence the extent of Web-based reporting practice. The company characteristics examined are size of company, liquidity, profitability, leverage, activity sector and audit type. Data collection for the extent of Web-based reporting took place between 9th December 2008 and 18th February 2009, whereas data for the company characteristics were based on the year of 2008. Data were analysed using multiple regression. The results show that firm size and profitability...
were positively statistically significant at p<0.05. This revealed that an increase in company size and profitability will contribute to an increase in the extent of Web-based reporting. Furthermore, the industrial products sector was statistically significant at p<0.05, but negatively so. Therefore, the result shows that companies from the sector of industrial products have a low level of Web-based reporting practice. In fact, the extent of Web-based reporting practice is much lower as compared to other sectors. Other factors were found to be not statistically significant. This means that the extent of Web-based reporting is not influenced by these factors.

Field of Research:

1. Introduction

Web-based reporting is defined as the reporting of non-financial information that is not normally incorporated in the annual report together with financial information by corporations (Kerckhoven, 2002). Web-based reporting is seen as vital to corporate sector in presenting and disseminating business information to the stakeholders. Among the advantages of Web-based reporting as compared to traditional paper-based reporting are innovative presentation of information, (Jones and Xiao, 2004), dynamic multimedia formats (Debreceny, Gray and Rahman, 2002), wider and easier access to information for larger groups of users without selection (Ettridge, Richardson and Scholtz, 2001) and ability of providing timeliness (Pratt, 1996) and more interactive information with unlimited space (Joseph, 1995).

Previously, the practice of Web-based reporting in Malaysia was voluntary in nature, thus, leads to a lack of uniformity among companies in Malaysia in terms of the information disclosed and the way the information is presented. It is expected to be caused by certain factors that influence the level of Web-based reporting practice. Hence, this study intends to look into the specific company characteristics that influence the extent of Web-based reporting practice.

Literature of Web-based reporting

A considerable amount of research on the extent of Internet reporting documented a variation of the practices among corporations around the world. There were firms with incentives to establish corporate websites, while there were also firms without corporate websites. For companies with corporate websites, variations exist in the extent of Internet reporting practice and disclosure.

Fekete, Tiron-Tudor and Mutiu (2009) examined the relationship between corporate governance factors, as well as company characteristics and the comprehensiveness of Web-based reporting. Their investigation focused on the context of 48 Romanian companies listed on the Bucharest Stock Exchange. The comprehensiveness of corporate Internet reporting was measured based on 35 items of disclosure index. The items were grouped into a format that represented the Web-based reporting quality index and content that represented the Web-based reporting quantity index. Fekete et al. (2009) categorised Web-based reporting quality index into general website items and specific investor relations. As for quantity index, it was categorised into financial reporting aspects and corporate governance aspects. Company characteristics examined in the study were company size, international visibility, profitability, leverage and activity sector. Pertaining to corporate governance factors, the variables investigated were auditor type, CEO role duality and ownership diffusion. Findings of the univariate analysis revealed the positive significant effect of size, profitability, auditor type and directors’ holdings and a negative
significant effect for international visibility and CEO role duality on the Web-based reporting quality. In addition, the findings indicated a significant positive relationship between size, profitability, auditor type and CEO role duality and Web-based reporting quantity and a negative significant relationship between free float and Web-based reporting quantity. The results for full Web-based reporting index show the positive significant impact of size, profitability and auditor type on Web-based reporting comprehensiveness. However, for the multivariate analysis, slight differences appeared in the result whereby besides size and profitability, leverage was found as positively significant in influencing comprehensiveness. Corporate governance factors, however, did not appear to be significant in determining companies’ Web-based reporting in terms of content and format.

Aly, Simon and Hussainey (2010) examined the potential factors affecting Web-based reporting in the context of 62 Egyptian companies listed on the Egyptian Stock Exchange. In measuring Web-based reporting, the study used 82 items of Internet disclosure index. The index consisted of 58 items of disclosure content and 24 items of presentation format and accessibility factors. The results of the OLS regression analysis conducted show that profitability, foreign listing and industry sectors through the communication and financial services sectors were positively significant in affecting both the amount and presentation formats of corporate Internet reporting of Egyptian listed companies.

Again, the Web-based financial reporting practised by the 88 most active companies listed on the Egyptian Stock Exchange was examined by Desoky (2009). Focus of this study is to examine the relationship of six factors, namely, company size, profitability, foreign listing, activity sectors, ownership structure and legal form towards Web-based reporting practice. In this study, Web-based reporting was operationalized according to 39 attributes, which consisted of 26 items of content and 13 items of users support. Multiple regression showed that size, which was measured by market capitalization, profitability by ROE, ownership structure by percentage of free float and foreign listing status, were the positively significant factors. Conversely, the legal form, which was measured by joint-owned and private-owned companies was negatively significant. The activity sector was found to be insignificant, and did not appear as a determinant of IFR extent.

In addition, the impact of corporate governance attributes on Web-based reporting practice has been investigated by Samaha, Dahawy and Abdel-Meguid (2012). Specifically, Samaha et al. (2012) focused on the influence of ownership structure and board of directors towards the propensity and comprehensiveness of Web-based reporting practice among the largest 100 Egyptian companies. Propensity of Web-based reporting practice was measured through a dummy variable of 1 for companies with accessible corporate websites and 0 otherwise. As for the comprehensiveness of reporting, it was operationalized by the checklist of 67 items of content and 20 items of presentation. Pertaining to the corporate governance attributes, ownership structure was proxied by free float, managerial ownership and government ownership, while structure of board of directors was measured by board size, board independence and CEO-chair duality. Result of the binary logistic regression indicated that companies with greater ownership dispersion, managerial ownership, governmental ownership and board independence were more likely to adopt this new method of reporting. As for the comprehensiveness, result revealed that companies with greater ownership dispersion, governmental ownership and board independence were more likely to have more comprehensive Web-based reporting.

**Research Methodology**
In this study, the extent of Web-based reporting acts as the dependent variable. Systematic random sampling is used in selecting companies to be a representative sample of the study. Total sample for the study was 380 companies, which consists of eleven sectors, namely consumer product, industrial product, construction, trading and services, finance, properties, plantation, technology, infrastructure, mining and hotel.

In examining the extent of Web-based reporting practice by listed companies in Malaysia, an index was used. A total of 41 items of Web-based reporting index was developed, which consists of both items of content and presentation. The items were grouped into five main categories, namely, Accounting and Financial Information, Investor Relation, Forward Looking Data, Technological Advantage and User Support. Data were collected by examining the extent of Web-based reporting practice for each sample company website for the presence of each of the 41 measurement items based on an unweighted index.

As for the independent variables, the company characteristics examined are size of company, liquidity, profitability, leverage, activity sector, audit type, proportion of independent non-executive directors and ownership structure. Data were analysed using multiple regression.

Specifically, the study uses the data for the year of 2008. In selecting sample of companies, the list of companies disclosed in the Bursa Malaysia column, the New Straits Times dated 8th December 2008 on pages 45 – 47 is used. As for the companies’ characteristics, data is collected from annual reports and Datastream.

**Findings of the Study**

Results of the regression model under stepwise method show that the firm size and profitability were positively statistically significant at \( p=0.037 \) and \( p=0.031 \), respectively. This revealed that an increase in company size and profitability will contribute to an increase in the extent of Web-based reporting. Furthermore, the industrial products sector was statistically significant at \( p=0.045 \), but negatively so. Therefore, the result shows that companies from the sector of industrial products have a low level of Web-based reporting practice. In fact, the extent of Web-based reporting practice is much lower as compared to other sectors.

Other factors (leverage, auditor type, ratio of independent non-executive directors and ownership structure) were found to be not statistically significant. This means that the extent of Web-based reporting is not influenced by these factors.

The value of adjusted \( R^2 \) of 0.161 in this study indicates that the regression model is able to explain 16.1 percent of the associations between the extent of Web-based reporting and its determinants. Based on the results, the equation of the regression model is specified as follows:

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\text{Web-based reporting} = 0.302 + 0.037(\text{asset}) + 0.031(\text{ROA}) -0.045(\text{ind}) + \epsilon
\]
Summary

Results of this study is fruitful in better understanding the determinant factors of Web-based reporting by the Malaysian public listed companies. As the study found that size and profitability of companies have a positive significant influence towards the extent of companies’ Web-based reporting practice, the results suggest that companies with high profitability and that are bigger in size would have better Web-based reporting practices.

The results might be of interest to the various types of user of corporate information. Most likely, companies that are more profitable and bigger in size are more stable. Therefore, investors and fund managers who are interested in investing in those companies can easily access the required corporate information through Web-based reporting provided by the companies. Similarly, investment analysts and corporate loan officers can easily access information pertaining to profitability as well as the ability of companies to pay debts through the Web-based reporting provided.

However, there might be other potential determinants exist that affect the extent of Web-based reporting practice by the public listed companies in Malaysia, but are not included in this study. Therefore, it is valuable for future research to consider the possibility of other determinants of Web-based reporting in Malaysia. Also, the inclusion of other determinant factors of Web-based reporting is worthwhile to obtain a stronger predictive model of Web-based reporting.

References


