

FACTORS OF INTERNET FINANCIAL REPORTING: THE CASE OF MALAYSIA

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ABSTRACT

This paper examines the factors that influence companies in Malaysia to engage in Internet Financial Reporting (IFR). Perceptions of advantages and problems in using this new technology for financial reporting were also examined. The perceptions of preparers of financial information were solicited using a survey mailed questionnaire. Preliminary findings suggested three factors that are perceived as important by responding firms to engage in IFR: (1) enhance corporate image, (2) company teller with the technology development, and (3) competitors in the industry. The findings also revealed three factors that inhibit firms from engaging in IFR: (1) need to keep information updated to be of use, (2) required expertise from the company, and (3) concern over security of information. The findings also suggested that 'global reach and mass communication' and 'timeliness and up-date ability' as the most important advantages from financial reporting on the Internet. On the other hand, 'security problems' and 'cost and expertise' are the disadvantages of placing financial information on the Internet. Finally, plausible implications of the findings of the study are then presented and areas for future research are also proposed. **Keywords:** factor, advantage, disadvantage and internet financial reporting

Field: Information technology

1. INTRODUCTION

The development of the Internet as a distribution channel of financial information creates a new communication medium and reporting environment in the corporate world (Ashbaugh et al., 1999; Chan & Wickramasinghe, 2006). The practice of disseminating business information in a digital format is spreading around the world (Bonson et al., 2006) and becoming a very important part of business information services (Liu, 2000). The Internet is a technology with the power to revolutionize external reporting and increasingly important for financial reporting (Jones & Xiao, 2004). It is a unique information disclosure tool that encourages

flexible forms of presentation and allows immediate, broad, and inexpensive communication to investors (Kelton & Yang, 2008). The Internet also provides a unique form of corporate voluntary disclosure that enables companies to provide information instantaneously to global audience (Abdelsalam et al., 2007).

A comprehensive review of existing literature on Internet Financial Reporting (hereinafter referred to as IFR) indicates a significant evolution of IFR research. The evolution of IFR research can be categorized into four research themes; classification of IFR, descriptive studies, association studies and dimension of IFR (Ali Khan & Ismail, 2008a). While researchers have given considerable attentions to IFR research over the last decade, only a limited number of studies have emerged to explain the relationship between corporate behaviour and the attitudes and preferences of preparers of IFR, especially in the context of Malaysia. Therefore, this study attempts to fill the gap by investigating the perceptions of preparers of financial information and to solicit their views about the factors, advantages and disadvantages of IFR.

The rest of this paper is arranged as follows. The next section provides an overview of IFR. Section three discusses about the research methodology, followed by research findings. The paper ends with a conclusion and suggestions for future research.

2. PRIOR RESEARCH ON IFR

There have been a growing number of empirical studies on IFR since 1995 reflecting the growth in this form of information dissemination (Davey & Homkajohn, 2004). IFR is an attractive and fast growing research topic (Oyelere et al., 2003; Xiao et al., 2005). A lots of IFR researches have emerged over the last decade. The earliest studies were produced during 1996 and 1997, only a year after the global, corporate interest in the Internet as an advertising media had commenced (Allam & Lymer, 2003). In general, the IFR literature can be classified into two themes; (1) the practices of companies

using the Internet for financial reporting purposes and as an investor relations communication strategy, and (2) the determinants of web-based disclosure policy choice (Joshi & Al-Modhahki, 2003). Furthermore, IFR research can be divided into several themes: descriptive research, comparative research and explanatory research (Pervan, 2006; Abdelsalam et al., 2007).

It has now becoming increasingly common for large corporations to communicate information to their stakeholders by using a voluntary disclosure medium like the Internet. Many companies provide websites which include large amounts of information on a rich range of financial matters. Compared to the traditional printed reports, the Internet offers many more opportunities to communicate financial information, and its importance in this regard is rapidly increasing (Pirchegger & Wagenhofer, 1999).

Corporate websites are designed for multiple reasons, including advertising the firms' products, facilitating electronic commerce, promoting brand identification, attracting potential employees, and enhancing the corporate image (Lybaert, 2002). The advantages of the Internet for financial reporting are its cheapness, speed, dynamism, and flexibility (Lymer, 1999). IFR can be cost effective, fast, flexible in format, and accessible to all users within and beyond national boundaries (Mohamed Hisham & Hafiz-Majdi, 2004). The last five years witness a growth in the number of companies adopting IFR. Indeed, IFR is one of the fast growing phenomenon (Ashbaugh et al., 1999; Oyelere et al., 2003). The development of IFR practice has been rapid, largely mirroring, and motivated by, the development of the world wide web since 1994, being the primary Internet medium for IFR (Allam & Lymer, 2003).

Several professional studies in the US, UK and Canada have also examined the status of IFR. These include the Institute of Chartered Accountants in England and Wales (ICAEW) (Spaul, 1997), the International Accounting Standard Committee (IASC), now the International Accounting Standards Board (IASB) (Lymer et al., 1999), Canadian Institute of Chartered Accountants (CICA) (Trites, 1999), and the U.S. Financial Accounting Standards Board (FASB) (FASB 2000, 2001).

IFR practices have been surveyed by a number of academic studies in many countries, for example US (Petravick & Gillett, 1996; Ashbaugh et al., 1999; Ettredge et al., 2001), UK (Lymer, 1997; Marston & Leow, 1998; Craven & Marston, 1999), Japan (Marston, 2003), New Zealand (McDonald & Lont, 2001; Oyelere et al., 2003) and Ireland (Brennan & Hourigan, 1998). Several studies have also examined the relationship between firm specific characteristics and IFR (see, for example, Ashbaugh et al., 1999; Craven & Marston, 1999; Hassan et al., 1999; Pirchegger & Wagenhofer, 1999; Bonson & Escobar, 2002; Debreceeny et al., 2002; Allam & Lymer, 2003; Joshi & Al-Modhahki, 2003; Oyelere et al., 2003; Marston & Polei, 2004; Xiao et al., 2004; Chan & Wickramasinghe, 2006).

While numerous studies have examined the status and

determinants of IFR, only few studies have focused on the timeliness issue which is an important part of IFR (Pirchegger & Wagenhofer, 1999; Ettredge et al., 2002; Abdelsalam & Street, 2007). Timeliness is crucial as users are demanding for more timely information (Fisher et al., 2004). It is even more important as shorter delays are often associated with greater profitability (reference). Unfortunately, many companies are found to focus more on the user support and information content than timeliness and technology (Davey and Homkajohn, 2004).

Studies on the perceptions of IFR from the preparers' and users' perspectives are very limited compared to those of traditional reporting. One exception is a study by Joshi and Al-Modhahki (2003). They found 'global reach and mass communication', 'timeliness and updateability' and 'interaction and feedback' as important advantages of IFR, while 'security problems' and 'authentication, attestation and legal impediments' as important disadvantages of IFR.

In summary, the wealth of recent research in this area also confirms the importance of the IFR issues. However, perception studies on the factors, advantages and disadvantages of IFR are still lacking in developing countries, especially Asian countries. In addition, to the best of our knowledge, no studies have asked the interested parties, and especially preparers about their perception and attitude in relation to IFR.

3. RESEARCH METHODOLOGY

The main objective of this study is to investigate the perception of preparers toward the advantages and disadvantages of IFR. For this purpose, data were collected by a mean of survey questionnaire. In designing the questionnaire, comments and feedback from post graduate students and academics were elicited in an endeavour to ensure that questions were clear and precise. Early draft on the questionnaire was pre-tested by two PhD accounting students, three accounting lecturers at Faculty of Management and Human Resource Management, Universiti Teknologi Malaysia, and three accounting lecturers at College of Business, Universiti Utara Malaysia. Based on their feedbacks, several modifications were made to the wording of some questions and some less important questions were deleted to reduce the length of the questionnaire.

The target preparers of IFR are chief financial officer (CFO), finance manager and accountants. CFO, finance managers or accountants of the public companies listed on the main board represented the preparers. CFOs were chosen because they are the senior executives who are responsible for both accounting and financial operations (Jiambalvo, 2004). CFO is a member of the management team that would typically be associated with the development of the corporate annual report and be in a position to comment on what influence the decision to disclose (Wilmsmurst & Frost, 2000). These individuals also have the necessary knowledge and competency regarding IFR matters (Ho & Wong, 2003; Mohd Isa,

2006). The respondents were asked to indicate their opinions on a five-point scale in terms of strongly disagree to strongly agree.

Since this paper is exploratory in nature. A exploratory study is conducted to preliminary determine to get the respondent perceptions. A sample of this study consists of 450 respondents (preparers of public listed companies in Bursa Malaysia). The sample size satisfies the rule of thumb proposed by Roscoe (1975) as noted by Sekaran (2003). Sekaran noted Roscoe as suggesting that, among others, a sample size larger than 30 and less than 500 is appropriate for most research, with a minimum number of sub-sample sizes of 30 for each category is necessary.

The data were collected during the month of July to September 2008. Each respondent received a marked questionnaire (for tracking purposes) together with a letter outlining the objective of the research, respondent confidentiality, and availability of survey result upon request, as well as a stamped addressed enveloped. We sent questionnaire to solicit their opinion on factors, advantages and disadvantages of reporting financial information on the Internet. A total of 68 respondents responded to the questionnaire, representing 15.11% response rate. CFOs and accountants are busy people and are generally unwilling to participate in survey studies (see, Ho & Wong, 2001), the low response rates (between 10 to 20 percent) were in line with the expectation of this study. PricewaterhouseCoopers (2002) reported that the average response rate for postal surveys in Malaysia is around 16 percent.

The questionnaire consists of two parts. Part one relates to the general aspects, which are the background of the respondent such as gender, age, education level and position. Part two, consists of respondent perceptions toward factors, advantages and disadvantages of IFR.

4. RESULTS

Table 1 shows the profile of the respondents. The results show that about 53 percent of the respondents are CFO while the remaining are finance manager and accountants. Two-third of the respondents are male. Eighty-seven percent of the respondents are 40 years old or below and almost all respondents have at least a degree or a professional qualification.

Table 1. Profile of Respondent

Demographic	Item	Frequency	Percentage (%)
Gender	Male	46	67.6
	Female	22	32.4
Age	< 30 years	6	8.8
	31 to 40 years	27	39.7
	41 to 50 years	26	38.2
	> 51 years	9	13.2
Academic certification	Diploma	3	4.4
	Degree / Professional	49	72.1
	Masters/Ph.D	16	23.5
Occupation	CFO	36	52.9
	Finance manager	21	30.9

The following sections report the results of the preparers' perceptions toward the factors that influenced them to adopt IFR. The results in Table 2 and Table 3 show 'enhance corporate image', 'company teller with the technology development' and 'competitors in the industry' as the three main factors that influence most influenced company to adopt IFR, while 'need to keep information updated to be of use', 'required expertise from the company' and 'concern over security of information' as the three main factors that most inhibited companies from adopting IFR. The respondent perceptions show that all the items are the factor influence company to engage or not to engage with IFR (mean > 3.00).

Table 2. Factors influencing company engage IFR

Item	N = 68 Mean	Standard deviation	Rank
Enhance corporate image	4.18	0.690	1
Company teller with the technology development	3.88	0.838	2
Competitors in the industry	3.66	0.924	3
Directors desire to engage IFR	3.62	0.811	4
Obligations to community	3.60	0.860	5
Obtain funds from wider sources	3.54	0.921	6
Media attention	3.40	0.849	7
Receive government support	3.26	0.908	8
Stability and improvement in share prices	3.24	0.900	9
Pressures from stakeholders	3.16	1.016	10
Win awards	3.15	0.950	11

Table 3. Factors influencing company not engage IFR

Item	N = 68 Mean	Standard deviation	Rank
Need to keep information updated to be of use	3.90	0.866	1
Required expertise from the company	3.74	0.785	2
Concern over security of information	3.72	0.990	3
Concern over disclosure of proprietary information	3.63	0.913	4
Cost incurred outweigh benefits to company	3.50	0.985	5
Potential legal liability	3.47	0.954	6
There are alternative forms of obtaining information	3.43	0.834	7
Too costly to setup and maintain	3.43	0.935	7
Do not want to be too transparent	3.40	1.067	9
No legal requirement	3.37	1.021	10
Fear of losing competitive advantage	3.06	0.976	11

A further analysis was carried out to investigate the perceptions of preparers and users toward the advantages and disadvantages of IFR. These items were extracted from the literature (Wallman, 1995; Green & Spaul, 1997; Lymer & Tallberg, 1997; Joshi & Al-Modhahki, 2003; Ali Khan & Ismail, 2008b). The perceptions were elicited using a Likert scale ranging from 1 (Strongly disagreed) to 5 (Strongly agreed). The results in Table 4 show that respondents perceived 'global reach and mass communication', 'timeliness and updateability' and 'increased information' as the three most important advantages of IFR (mean > 4.00).

Table 4. Advantages of IFR

Item	N = 68		Rank
	Mean	Standard deviation	
Global reach and mass communication	4.26	0.683	1
Timeliness and up-date ability	4.10	0.694	2
Increased information (downloadable) and analysis	4.01	0.723	3
Navigational ease	3.94	0.689	4
Interaction and feedback	3.87	0.751	5
Cost beneficial	3.72	0.789	6
Presentation flexibility and visibility	3.65	0.768	7

On the hand, the results in Table 5 show that respondents perceived 'security problems', 'cost and expertise' and 'poor website design and advertising' as the three most important disadvantages of IFR (mean > 3.50). Otherwise, the respondent perceptions show that all the items are the advantages and disadvantages of IFR (mean > 3.00).

Table 5. Disadvantages of IFR

Item	N = 68		Rank
	Mean	Standard deviation	
Security problems	3.94	0.896	1
Cost and expertise	3.84	0.874	2
Poor website design and advertising	3.53	0.954	3
Authentication, attestation and legal impediments	3.50	0.889	4
Information overload	3.44	0.920	5
Developed and developing country digital divide	3.34	0.874	6

5. CONCLUSION

On this paper, we examine the perceptions of preparers on the factors, advantages and disadvantages of IFR. There are two important findings emerged from this study that can be used as a basis for future research. First, the respondents ranked 'enhance corporate image', 'company teller with the technology development' and 'competitors in the industry' as the most important factors that influence companies to adopt IFR. On the other hand, 'global reach and mass communication', 'timeliness and

updateability', 'increased information' and 'navigational ease' were ranked as the most important disadvantages. Second, respondents perceived 'global reach and mass communication' as the most important advantage of IFR, while 'security problems' as the most important disadvantage.

In a nutshell, this paper provides important insights into the factors, advantages and disadvantages of IFR from the perspectives of preparers and users which are neglected by prior research. However, there are several limitations of our study, and future research can refine and broaden our analyses in several aspects. The first is the small sample size. As the Internet continues to evolve, we expect more companies to create websites and adopt IFR within the next few years. Therefore, it would be interesting for researchers to further investigate this issue with a larger sample size. Second, the subject being surveyed can be described as a top management issue and it may be that not all respondents can reveal all the confidential information. Third, questionnaire may not be the best way of collecting data about IFR. Further research could try other approaches, such as interviewing companies, preparers and user. Fourth, this study only focuses on Malaysia. Future research may investigate and compare the issue between countries, especially between developed and developing countries. Finally, the Malaysian environment may be unique and, therefore, our findings may not be generalized in other capital markets. Replications of IFR practice in other national settings warrant potential research extensions of this paper.

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