

PERCEIVED USEFULNESS AND PERCEIVED QUALITY OF
INTERNET FINANCIAL REPORTING IN MALAYSIA

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ABSTRACT

This study investigates the perceived usefulness and perceived quality towards the intention use of Internet Financial Reporting (IFR) in Malaysia from user's perspective. There are five qualitative characteristics that describe useful financial information, which are relevance, reliability, understandability, comparability and timeliness. The researcher also applies part of the theory of Technology Acceptance Model (TAM) in the research. The research was conducted by using Internet-based questionnaire on popular online forums in Malaysia, and the respondents in this study were stock investors. A total of 90 questionnaires were collected out of 200 questionnaires distributed, indicating a 45% rate of return. The methods applied in this study include descriptive analysis, correlation analysis and multiple regression analysis. There are four main results in this study. First, the descriptive analysis showed that the top five components of user's preference of IFR are annual report, dividend, current share price, balance sheet and historical share price. Second, the level of usefulness and quality of IFR perceived by users are at an intermediate level, and perceived usefulness has the highest mean score among the variables. Third, Kendall's tau-b correlation showed that there is a significant association between independent variables and the intention to use IFR. Lastly, the regression analysis for the first model showed that perceived usefulness and comparability were found to be the most significant predictors of the intention to use IFR before making investment decision. The regression analysis for the second model showed that perceived usefulness and perceived quality are both significant towards the intention to use IFR. The rating of IFR components in this study can be used as a guidance to indicate the user's preference. The Technology Acceptance Model (TAM) is suitable to investigate the quality and usage of IFR from a user's perspective.

ABSTRAK

Kajian ini mengkaji tentang tanggapan kebergunaan dan tanggapan kualiti terhadap hasrat untuk menggunakan Pelaporan Kewangan menerusi Internet (PKMI) di Malaysia dari perspektif pengguna. Terdapat lima ciri-ciri kualitatif yang menerangkan maklumat kewangan yang berguna iaitu relevan, kebolehpercayaan, pemahaman, perbandingan dan ketepatan masa. Penyelidik juga memakai sebahagian daripada teori Model Penerimaan Teknologi (TAM) dalam penyelidikan. Kajian ini dijalankan secara dalam talian dengan menggunakan soal selidik berasaskan Internet di forum-forum popular di Malaysia, dan responden dalam kajian ini adalah pelabur saham. Sebanyak 90 borang soal selidik telah dikumpul daripada 200 soal selidik yang diedarkan, ia menunjukkan kadar maklum balas sebanyak 45%. Kaedah-kaedah yang digunakan dalam kajian ini meliputi analisis deskriptif, analisis korelasi dan analisis regresi berganda. Terdapat empat hasil utama dalam kajian ini. Pertama, analisis deskriptif menunjukkan bahawa lima komponen terutama yang pengguna lebih suka untuk membaca dan digunakan dalam PKMI adalah laporan tahunan, dividen, harga saham semasa, kunci kira-kira dan sejarah harga saham. Kedua, tahap tanggapan kebergunaan dan tanggapan kualiti PKMI diterima oleh pengguna adalah di peringkat sederhana, tanggapan kebergunaan mempunyai skor min yang tertinggi di kalangan pemboleh ubah bebas. Ketiga, korelasi Kendall tau-b menunjukkan bahawa terdapat hubungan yang signifikan di antara pemboleh ubah bebas dan hasrat untuk menggunakan PKMI. Akhir sekali, regresi model pertama menunjukkan bahawa tanggapan kebergunaan dan karekter perbandingan didapati peramal yang paling penting kepada hasrat untuk menggunakan PKMI sebelum membuat keputusan pelaburan. Regresi bagi model kedua menunjukkan bahawa kedua-duanya tanggapan kegunaan dan tanggapan kualiti adalah penting bagi menjelaskan hasrat untuk menggunakan PKMI. Kadaran komponen PKMI dalam kajian ini boleh digunakan sebagai panduan untuk menunjukkan keutamaan pengguna. TAM sesuai untuk mengkaji kualiti dan penggunaan PKMI dari perspektif pengguna.

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LIST OF ABBREVIATIONS

ARPA	-	Advanced Research Project Agency
ASB	-	Accounting Standards Board
CEO	-	Chief Executive Officer
CFO	-	Chief Financial Officer
CSR	-	Corporate Social Responsibility
HTML	-	Hypertext Mark-Up Language
IASB	-	International Accounting Standards Board
IFR	-	Internet Financial Reporting
ITU	-	Intention to Use
KLSE	-	Kuala Lumpur Stock Exchange
PDF	-	Portable Document Format
PQ	-	Perceived Quality
PU	-	Perceived Usefulness
SPSS	-	Statistical Package for the Social Sciences
TAM	-	Technology Acceptance Model
TCIR	-	Timeliness of Corporate Internet Reporting
TRA	-	Theory of Reasoned Action
WWW	-	World Wide Web
XBRL	-	Extensible Business Reporting Language

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CHAPTER 1

INTRODUCTION

1.1 Introduction

The revolution of technology is causing a great impact on human being, such as making the human life easier and more comfortable (European Commission, 2010) and at the same time creating a strong dependence on the utilization of technology (Harper *et al.*, 2008). The innovation of computer and Internet allows information sharing in just a few clicks. The most obvious example is Facebook, the social network used widely in this age, especially among younger generations. Information technology has a great influence in accounting activity; Lymer (1999) claimed that the Internet can extend the possibilities of business information management within and between businesses and offers new ways of undertaking commerce and the creation of wealth. However, the business only began to take serious notice of it after thirty years of occurrence in 1995 with the development of World Wide Web (WWW) (Lymer, 1999). The Internet at that time was primarily used as advertising tools in Europe and became a low-cost and efficient distribution medium for information (Hedlin, 1999). When users of the Internet increase, it also arouses the adoption of Internet Financial Reporting (IFR) and it becomes the major trend for public listed company. In this research, IFR can be defined as “the public reporting of operating and financial data by a business enterprise by the WWW or related Internet-based communications medium” (Lymer *et al.*, 1999). Researchers believed this trend will bring a significant impact on the field, such as increased auditing problems and increased provision of information by third parties, which benefits both preparers and users (Xiao, Jones and Lymer, 2002).

According to Baldwin and Williams (1999), the web is the universe of network-accessible information and exemplification of human knowledge. They also argued that the global business environment has shifted towards the use of technology and electronic media to indicate the company has the potential to create numerous opportunities in the future and to conduct activities such as basic operation, information dissemination and promoting the company via Internet. Mainly, the companies used the Internet as a channel to communicate with investors (Hedlin, 1999).

Researchers have stated that the implementation of IFR in Malaysia is still in its infancy stage (Hassan *et al.*, 1999; Khadaroo, 2005; Al Arussi, Selamat and Hanefah, 2009). Previous researchers believed that the traditional printed financial report will gradually be replaced with IFR in the future (Beattie and Pratt, 2003). The increasing awareness and use of information technology can encourage the production and dissemination of accounting information (Baldwin and Williams, 1999). The importance of IFR cannot be denied, as it can increase the awareness of the greenhouse effect and encourage the implementation of environmental friendly annual report. Corporate is changing from solely printed financial disclosure in paper version to a mixed-mode of printed and electronic financial disclosure on the web (Debreceeny and Grey, 1999). Besides, it helps in saving the delivery time to the final user, as Lymer (1999) stated that the Internet is an instant and convenient medium for users to obtain the data they want for further analysis or examination.

Previous IFR related studies are focused on developed country, such as the United Kingdom (Craven and Marston, 1999), United States, (Ashbaugh, Johnstone and Warfield, 1999), Japan (Marston, 2003), and some other European countries (Baldwin and Williams, 1999; Deller, Stubenrath and Weber, 1999; Gowthorpe and Amat, 1999; Geerings, Bollen and Hassink, 2003; Hedlin, 1999; Xiao, Jones and Lymer, 2002). Some pioneers were carrying out their research in developing countries, such as Malaysia (Hassan *et al.*, 1999; Mohamad, 2003; Hanifa and Ab. Rashid, 2006; Ali Khan and Ismail, 2009b; Ali Khan and Ismail, 2012a), Turkey (Bozcuk, Aslan and Arzova, 2011), Qatar (Al-Moghawli, 2009), and Jordan (Al-Htaybat, Alberti-Alhtaybat and Hutaibat, 2008).

Previous researches show that larger companies are more prone to disclose their financial status via Internet (Craven and Marston, 1999; Al-Moghawli, 2009; Alanezi, 2009; Nurunnabi and Hossain 2012; Hanifa and Ab. Rashid, 2006). A number of the previous researches focus on the determinants or factors of IFR practice (Al Arussi, Selamat and Hanefah, 2009; Alanezi, 2009; Ali Khan and Ismail, 2009b; Hanifa and Ab. Rashid, 2006). Until now, only limited researches were carried out regarding the user's perception on the usefulness of IFR (Gowthorpe, 2000). The question arises when the asymmetrical dialogue exists, such that the prepared IFR information does not fulfil the needs of user and corporate information disseminator (Gowthorpe, 2004). After the extensive literature review conducted regarding IFR, researchers found that there is no clear empirical evidence that examines the demands of user. Thus, there is a need to examine the user's requirements via an empirical study. Therefore, this research focuses to fill in the gaps and examine the user's perception on the usefulness and quality of IFR in Malaysia.

1.2 Background of Study

The birth of the Internet begins in 1 Sept 1969, when the Advanced Research Project Agency (ARPA) under the United States Department of Defense developed an experimental network called ARPANET. The first packet-switched network is developed to connect University of California Los Angeles, Stanford Research Institute, University of California Santa Barbara and University of Utah (Leiner, Khan and Postel, 2009). The ARPANET was initially used to link the four main supercomputer centres together for military research. Many years after, the ARPANET had evolved into the widespread networks of millions of users, known today as the "Internet". The Internet can be utilized as a tool for information gathering, pairing sets, analysing and monitoring of information (Baldwin and Williams, 1999).

The use of Internet has continued to grow in e-commerce since 1994 and search engines like yahoo.com and google.com was announced in 1995 and 1998

respectively. The population of Internet also experienced a dramatic growth about 566% and achieved 2.4 billion users in 2012 compared to 2000 (De Argaez, 2012). According to the statistics provided by De Argaez (2012), the highest number of Internet users is in the Asian region, while North America is the region with the most Internet penetration over the population. It is believed that the population will continue to increase in the future (Baldwin and Williams, 1999). Malaysian Communications Multimedia Commission (MCMC, 2012) reported that Malaysia broadband penetration rate in 2007 was still 15% and it was exponentially growths in 5 years to 66%.

The increasing number of Internet users is a sign of how important the Internet is to human being. Some companies have begun using it to sell goods or services directly through the Internet, which is also known as e-commerce (Lymer, 1999). The corporate segment is using it to promote their business and as a medium of communication between shareholders and investors since the 1990s. Besides, some companies used it as online brochures and provide some financial data as part of its contents (Lymer, 1999). While a financial report of a company reflects the effect of economic events on the business entity, it becomes an important feature to be included in the corporate website, although the government's legislation is not included in the law. There is much information that can be shared in the corporate's website to provide enough information about a company, in order to attract investment and enhance corporate image (Ali Khan and Ismail, 2009b). Al Arussi, Selamat and Hanefa (2009) argued that many types of financial and non-financial information disclosed on the Internet are considered important for the company. The development of the Internet encourages the disclosure of financial information through the company's official website, which is now commonly known as IFR.

Online disclosure of financial information has become a common practice for Malaysian public listed companies in recent years. The first motivating factor to encourage the practice is the cost, where researchers believe that the cost of web dissemination of information is cheaper compared to annual report printed on paper (Momany and Al-Shorman, 2006). In developed or developing countries, such as Malaysia, firms are using their corporate website as an efficient and low cost

distribution medium for information (Hedlin, 1999). Besides, IFR allows the firms to reach unidentified consumer, unlike paper-based annual report which only targeted selected group (Momany and Al-Shorman, 2006).

According to Ashbaugh, Johnstone and Warfield (1999), the financial information given can be considered reliable if it has been certified by an independent auditor. Unfortunately, they may generate unreliable information by posting unaudited financial information and due to the faults of website security. Besides, inadequate website security will result in unreliable information, which is caused by immoral hacker activities (Ashbaugh, Johnstone and Warfield, 1999). Worries will arise when irresponsible preparer intend to provide unaudited information on the web.

Although many researches have been conducted with regard to IFR, there is still lack of study about the intention to use IFR from an IFR's user perspective of usefulness. The understanding of the users' perception on various aspects of Malaysian IFR is still indistinct (Ali Khan and Ismail, 2012c). In general, the objective of this study is to investigate the usefulness and quality of IFR practices in Malaysia firms from an IFR's user point of view. Preparer and user of IFR are believed to have different points of departure as previous study has shown that preparers tend to read the income statement thoroughly, whereas users prefer to focus on the cash flow statement (Stainbank and Peebles, 2006). Studies on the perceptions of IFR from users' and preparers' perspectives are still very limited compared to the traditional financial reporting (Ali Khan and Ismail, 2012c). Financial reporting which is evolving towards contemporary IFR has a specific aim, which is to satisfy varying users' needs (Al-Htaybat, Alberti-Alhtaybat and Hutaibat, 2008). This research is important to help the preparer to understand and identify the needs of IFR users in Malaysia and to allow them to prepare a better IFR in the future.

1.3 Problem Statement

Development of IFR contributes to two major economic effects. First, it changes the information processing costs and with it, the demand and supply of financial information in capital markets (Wagenhofer, 2003). It allows companies to disseminate their information at a lower cost and reach a wider range of user groups. Second, it establishes the demands for standardization which led to the developments of Extensible Business Reporting Language (XBRL) (Wagenhofer, 2003). Standardization developments intend to increase the usefulness of information disclosed, by ensuring that all financial statements undergo the same processes so that the disclosed information is relevant, reliable, comparable and consistent.

According to the International Accounting Standards Board (IASB) Framework, they have identified four principal qualitative characteristics for the preparation and presentation of financial statements, namely: relevance, reliability, understandability and comparability (IASB, 1989). Ashbaugh, Johnstone and Warfield (1999) found that the substantial variation of IFR's quality pertains to the timeliness and the usefulness of IFR. They have also discovered that the usefulness of IFR depends on the ease of data access, the amount of data disclosed and whether the data can be downloaded by the user for further analysis (Ashbaugh, Johnstone and Warfield, 1999). According to Stainbank and Peebles (2006) research in South Africa regarding the usefulness of corporate annual reports, preparers prefer the fair presentation of annual report, whereas users preferred comparability annual report. The financial information given by the preparer might not fit the user requirements. Various parties have criticized financial reporting worldwide in the past few decades for not adequately meeting the needs of users (Baldwin and Williams, 1999). The majority of users still rely on the annual report as their primary source of information, although the amount of information provided by annual reports is perceived to be inadequate (De Zoysa and Rudkin, 2010). The asymmetry of information may be caused by the preparers and users' different approach towards information disclosed from a different point of departure. Meanwhile, asymmetry of communication occurs due to the fact that denominator is always taking the dominant role in deciding the nature and extent of information provision (Gowthorpe, 2004). There is a need to

research the usefulness and usability of IFR practice from a user's perception (Al-Htaybat, Alberti-Alhtaybat and Hutaibat, 2008).

Previous research shows that there is an obvious difference in approach taken between preparer and user towards IFR (Stainbank and Peebles, 2006). Preparer of IFR might provide inadequate IFR information, which may not meet the users' needs (Baldwin and Williams, 1999). Therefore, the main point of this research is to identify the perceived usefulness and perceived quality of IFR practice in Malaysia from a user's perception. In the accounting discipline, only a few researchers have studied about user's perceptions of different reporting formats (Ghani, Laswad and Tooley, 2009). A previous study provided some evidence that users of financial reports perceived the digital reporting formats as "fairly useful" (Beattie and Pratt, 2003). However, there is still a lack of similar studies to provide further evidence on the perceptions of digital reporting formats (Ghani, Laswad and Tooley, 2009). Besides, the researcher will also examine on how the user perceives each of the components in IFR. Such examination is important as it provides insight to preparers who are trying to understand the factors that influence users' acceptance of a technology (Adam, Nelson and Todd, 1992). Understanding the user's needs is vital in order to provide a better vision for the preparer to plan and provide a better and useful financial statement for the sake of stakeholders and investor (IBFed, 2008; GAA, 2009). In order to ensure that the information provided is useful and meets the demands of users, the preparer needs to determine the different perception towards IFR from a user's point of view. Last but not least, the researcher will also investigate the relationship between the intention of the usage of IFR with the perceived usefulness and perceived quality from a user's perspective.

Based on the lack of literature in the field of IFR, this study attempts to reveal the following question for a research purpose:

What is the perceived usefulness of IFR from a user's perception and how do the qualitative characteristics perceived by a user influence the intention to use IFR?

1.4 Research Questions

This study investigates the usefulness of IFR contents provided by Malaysian public listed companies in Bursa Malaysia in 2013 from a user's perspective. It addresses the following questions:

- (i) What components of IFR are the most likely to be read and use by user during decision making?
- (ii) What is the level of usefulness and quality of IFR perceived by user in Malaysia?
- (iii) How a user's perception of usefulness and quality influences the intention to use IFR?
- (iv) What users think of the extra features that can be added in IFR?

If the current IFR status is still below the expectation of the user, then the preparer should be informed of this discrepancy and respond appropriately to promote the usage of IFR.

1.5 Research Objective

Specifically, this study attempts to achieve the following objectives:

- (i) To identify the most useful components of IFR for the user.
- (ii) To measure the level of perceived usefulness and perceived quality of IFR from a user's perspective.
- (iii) To examine the impact of perceived usefulness and perceived quality on the intention to use IFR.
- (iv) To clarify the user's requirements of useful IFR information.

1.6 Scope of Study

This study investigates the user's perception of the quality and usefulness of IFR practice in Malaysia. The user's group will include the public investor group. The public investor group is the investors from the general public and have been using the IFR's information in making their investment decision. The public investor group was chosen because they are easier to locate and approach for data collection purposes. This study intends to find out the user's perception towards the current IFR information provided.

1.7 Significance of study

This research is to investigate the level of user's opinion towards the components in IFR and to determine the qualitative characteristics which influence a user's intention to use IFR as a decision making tool. The findings of this study will contribute theoretically and also practically. In general, the knowledge acquired from this research will serve as a good platform to encourage the usage of IFR in Malaysia. The findings of this research will contribute towards developing a user friendly IFR practice. Besides, the model used for this research will serve as a guideline to consider qualitative characteristics of useful financial information and also as a foundation to produce a high quality and useful IFR information. Furthermore, the research will provide empirical evidence that can clarify the requirements in order to encourage financial report user to use IFR as a decision making tool in Malaysia. The finding of this research can also be used to support future researches which seek to understand the factors that influence user's intention to use IFR in Malaysia.

1.7.1 Theoretical

This study applies part of Technology Acceptance Model and extends the component of perceived quality by using qualitative characteristics of useful

financial information to determine the factor that influence a user's intention to use IFR as a decision making tool. This study can be a reference to understand the characteristics that encourage the user to use IFR in Malaysia.

1.7.2 Practical

There are several contributions in conducting this study: First and foremost, this study provides the perception of the IFR user towards the usefulness and quality of the IFR information. These perceptions are important for the preparer to improve the content disclosed in their website. Secondly, it provides the user's input in using the IFR information provided by a preparer as a decision making tool. The preparer could use it to revise the overall disseminated information and add additional functions to meet the demands of the IFR user. Thirdly, the research could be used to encourage the preparer to provide a more useful and functional IFR information in the future. Besides, this study will also help in determining the characteristics of a useful IFR that can significantly explain the intention of IFR usage.

1.8 Structure of Report

This chapter explained the main objective to conduct this study. The background of IFR is briefly discussed and is followed by problem statement which introduces the objective of the research and questions underlying the research. Significance of study and the organization of the report have also been outlined.

The next chapter discusses about the previous studies conducted on the related topic and provides a clear definition for the title. The theory and model in the perceived usefulness and intention to use will be discussed.

The third chapter focuses on the research methodology used in this study including the hypothesis to be applied in this research. Sections of this chapter

discuss and explain about the quantitative aspects of this study including instrument development, sampling, data collection methods, reliability test, and statistical analysis methods.

The fourth chapter will emphasize on the analysis and finding of the research. Data collected through questionnaires are used for analysis. Results obtained from the analysis are discussed in details.

The final part of this report will include the conclusion drawn from this research as well as a brief suggestion for future research and recommendations.

1.9 Summary

This chapter provided the background details regarding the IFR practice in a firm's website. The objective of this study is to investigate the impact of perceived usefulness and perceived quality towards the intention to use IFR from users' perspectives. Besides, this chapter also identifies the problems that necessitate the creation of this research. The scope of study covers the user from public investor groups. The significance of this study is its contribution towards developing a high quality IFR disclosure in Malaysia. Furthermore, each chapter and steps of conducting this research has been briefly outlined. The next chapter provides background information of the research based on literature reviews from previous studies.

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