

Full Length Research Paper

Benefits of internet financial reporting in a developing countries: Evidence from Malaysia

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The use of the internet as a new platform for dissemination of corporate information is a recent, fast growing phenomenon and is expanding rapidly. Corporate information includes records of historical and financial data, descriptions of activities, information of the company, exposition of current situation and future plans, etc., that can be in multiple formats via website. Most early Internet Financial Reporting (IFR) research are either descriptive studies and exploratory in nature, or association studies addressing the determinants of IFR. IFR is known as new medium and technology which has been introduced in the area of financial reporting or disclosure. However, little attention has been given to investigate the attitudes and preferences of preparers of financial information especially in the Malaysian context. Therefore, this paper focuses on investigating the perceptions of preparers of financial information by using a survey mailed questionnaire. The findings of this study suggested three main benefits to companies that engage in IFR: attract foreign investors, promote company to the public, and attract local investors. The findings also revealed that three main benefits to the users who collect financial information of companies via their website are: increases timeliness and efficiency in obtaining financial information, helps users in the decision making process and provides another medium of disclosure. In conclusion, this study makes a positive contribution to enhancing our knowledge of IFR and disclosure practices in emerging capital markets, and provides a basis for the conduct of future research.

Key words: Benefit, preparers, financial statements, internet financial reporting, Malaysia.

INTRODUCTION

Accounting disclosure, financial reporting and information plays an important role in individual and corporate decision making. In particular, a fundamental use of accounting information is to help investors make an effective decision concerning their investment portfolios (Elsayed and Hoque, 2010). Otherwise, the internet has become one of investors' most frequently used sources of information and many companies are now reporting all or part of their financial information on their websites (Hindi and Rich, 2010). In the internet era, many listed companies have decided to use internet as a communication

tool for investors' relations (Pervan and Sabljic, 2011). The internet is a technology with the power to revolutionise external reporting and is becoming increasingly important for financial reporting (Jones and Xiao, 2004). The internet provides a unique form of corporate voluntary disclosure that enables companies to provide information instantaneously to global audience (Abdelsalam et al., 2007). The internet also enables organizations to disclose information on real-time basis and increase the accessibility of both financial and non-financial information (Bollen et al., 2008). The internet revolution has altered the traditional flow of accounting, auditing and accountability information to various interest groups (Khadaroo, 2005).

The practice of disseminating business information in a digital format is spreading around the world (Bonson et

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al., 2006) and becoming a very important part of business information services (Liu, 2000). It is a unique information disclosure tool that encourages flexible forms of presentation and allows immediate, broad, and inexpensive communication to investors (Kelton and Yang, 2008). Technological advancement has made the internet a useful, timely and cost-effective tool for communication of financial information to stakeholders (Mohamed et al., 2009).

Many studies investigate the potential effect of using the internet in disclosing information on the corporate website (Ezat and El-Masry, 2008). Despite the growing usage of the internet in financial markets by companies, academic research into the use of the internet in financial disclosure is still in its infancy stage in developing countries such as Malaysia (Hassan et al., 1999; Ismail and Tayib, 2000; Khadaroo, 2005; Al Arussi et al., 2009). While considerable attentions has been given to internet financial reporting (IFR), research over the last decade, little attention has been given by researchers to investigate the relationship between corporate behaviour and the attitudes and preferences of preparers of IFR, especially in the context of Malaysia (Khan and Ismail, 2009). Lack of studies on factors influencing perceptions on IFR prompted the need for such a study, especially in a non-Anglo-American environment. Therefore, this study attempts to fill the gap in our knowledge of this subject by investigating the perceptions of preparers of financial information and to elicit their views about the benefits, advantages and disadvantages of IFR.

PREVIOUS RESEARCH

A comprehensive review of existing literature on IFR indicates a significant evolution of IFR research. IFR is a new technology which has been introduced in the area of financial reporting or disclosure (Moradi et al., 2011). 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 and Ismail, 2008). Otherwise, on top of the statement produced by professional bodies, there were also numerous empirical studies that serve as evidence to the phenomena.

There have been a growing number of empirical studies on IFR since 1995 reflecting the growth in this form of information dissemination (Davey and Homkajohn, 2004). IFR is an attractive and fast growing research topic (Oyelere et al., 2003; Xiao et al., 2005). IFR is a new and wide research area (Moradi et al., 2011), become a focus of urgent investigation at international level (Al-Htaybat, 2011) and important and interesting agenda to be investigated (Ali Khan and Ismail, 2011).

A lot of IFR researches have emerged over the last decade. The earliest studies were produced in 1996 and

1997, only a year after the global and corporate interest in Internet as an advertising medium began (Allam and 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 and 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).

In contrast to traditional printed reports, the internet offers many more opportunities to communicate financial information and its importance in this respect is rapidly increasing (Pirchegger and Wagenhofer, 1999). Corporate websites are designed for multiple reasons, to advertise firms' products, to facilitate electronic commerce, to promote brand identification, to attract potential employees, and to enhance corporate image (Lybaert, 2002). The advantages of the internet for financial reporting are its cost, 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 (Haniffa and Rashid, 2004). The last five years have witnessed 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; Mohamed et al., 2009). IFR has become a focus of urgent investigation at the international level (Al-Htaybat, 2011). The development of IFR practice has been rapid, largely mirroring, and motivated by, the development of the World Wide Web (WWW) since 1994, being the primary internet medium for IFR (Allam and Lymer, 2003).

The disclosure of corporate information via the Internet is attracting the attention not only of various accounting bodies but also researchers. In recent years, the principal accountancy bodies have conducted several studies analysing the possible repercussions of corporate reporting practices on the accounting profession (Bonson and Escobar, 2006). 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).

Furthermore, the digital distribution of accounting information has also been studied intensively by researchers in recent years (Bonson and Escobar, 2006). IFR practices have been the focus of a number of academic studies in many countries, for example US (Petrvick and Gillett, 1996; Ashbaugh et al., 1999; Ettredge et al., 2001), UK (Lymer, 1997; Marston and Leow, 1998; Craven and Marston, 1999; Abdelsalam et

al., 2007), Japan (Marston, 2003), New Zealand (McDonald and Lont, 2001; Oyelere et al., 2003) and Ireland (Brennan and Hourigan, 1998; Abdelsalam and El-Masry, 2008). Several studies have also examined the relationship between the specific characteristics of firms and IFR (Ashbaugh et al., 1999; Craven and Marston, 1999; Hassan et al., 1999; Pirchegger and Wagenhofer, 1999; Bonson and Escobar, 2002; Debreceny et al., 2002; Allam and Lymer, 2003; Joshi and Al-Modhahki, 2003; Oyelere et al., 2003; Marston and Polei, 2004; Xiao et al., 2004; Chan and Wickramasinghe, 2006; Barako et al., 2008; Kelton and Yang, 2008; Ezat and El-Masry, 2008; Al Arussi et al., 2009). The growing use of the internet for corporate dissemination, including providing annual reports on the internet, and the extent and sophistication of IFR practices, vary across countries (Mohamed et al., 2009).

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

More importantly, studies on the perceptions of IFR from the preparers' 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.

Although, interest in this topic has clearly increased in recent years, little attention has been given by researcher to study IFR and companies in the developing countries. For example, in Malaysia, perception studies on the benefits of IFR are still lacking. To the best of our knowledge, only a few studies have examined the perception and attitudes of interested parties especially preparers of financial information in relation to IFR.

RESEARCH DESIGN

The aim of this study is to examine and document the perception of preparers of financial information towards the benefits, advantages and disadvantages of IFR. For this purpose, data were collected via survey questionnaire. In designing the questionnaire, comments and feedback from postgraduate students and academics were elicited in an endeavour to ensure that questions were clear and precise. Early draft of the questionnaire was pre-tested by two PhD accounting students, six accounting lecturers at Universiti Teknologi Malaysia and Universiti Utara Malaysia. Based on their feedback, some 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 possesses an edge because of their financial acumen and their ability to dissect and explain the business's financials (Izma, 2010). CFO is the member of a 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 (Wilmshurst and Frost, 2000). CFO has a good knowledge regarding the disclosure practice in their companies and actively involved in preparing financial statements or annual reports (Ho and Wong, 2003). These individuals also have the necessary knowledge and competency regarding IFR matters (Ho and Wong, 2003; Mohd Isa, 2006). CFO and accountants are selected because they have the knowledge, competency and understanding of such preparation (Ku Ismail and Chandler, 2007). Accountants have been instrumental in imposing an increasingly rigid and pervasive structure of regulation (Gowthorpe, 2000). Accountants' roles as gatekeepers, interpreters and beneficiaries of the accounting process have significant influence in shaping reality (Morgan, 1988). 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 preliminary study is conducted to preliminary determine 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 October 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 envelope. The questionnaire was sent to elicit their opinion on benefits, advantages and disadvantages of reporting financial information on the Internet. A total of 68 completed questionnaires were returned, representing 15.11% response rate. CFOs and accountants are busy people and are generally unwilling to participate in survey studies (Ho and Wong, 2001); the low response rates (between 10 and 20%) 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% and the ample response rate for a questionnaire survey is 15 to 20% (Staden, 1998).

The questionnaire consists of two parts. Part one covers the demographic profile of the respondents pertaining to general background information such as gender, age, education level and position. Part two consists of the respondent's perceptions toward benefits, advantages and disadvantages of IFR. The properties of the questionnaires have been thoroughly tested for its content and validity. The data collected are then analysed and summarised. The results of the analysis are presented and discussed further.

RESULTS

Table 1 presents a brief profile of the respondents. A total of 68 respondents participated in this study. The results

Table 1. Profile of respondent.

Demographic	Item	Frequency	%
Gender	Male	46	67.6
	Female	22	32.4
Race	Bumiputera	24	35.3
	Non-bumiputera	44	64.7
Academic certification	Diploma	3	4.4
	Degree / Professional	49	72.1
	Masters/PhD	16	23.5
Occupation	Chief financial officer	36	52.9
	Finance manager	21	30.9
	Accountants	11	16.2

show that about 53% of the respondents are CFOs while the remaining are finance managers and accountants. Two-third of the respondents were male. Majority of the respondents are non-bumiputera. Almost all respondents have at least a degree or a professional qualification.

As presented in Table 2, the results indicate that 'attract foreign investors', 'promote company more widely to the public', 'attract local investors', 'provide wider coverage compared to the traditional form of annual reports', 'promote transparency' 'attract potential customers', 'discharge accountability' and 'enhance managerial efficiency' as the main benefits of IFR to the company (mean > 3.50). Almost all items can be categorized as the main benefits of IFR to the company. Table 2 show that over 75% of the respondents either agree or strongly agree that such policy benefits the companies because they are able to attract foreign investors, promote company more widely to the public, attract local investors, provide wider coverage compared to the traditional form of annual reports and promote transparency compared to the traditional form of annual reports. Thus, it can be deduced, from the perspective of preparers of financial information in companies, disclosure of financial information via the website is an alternative medium for communicating with their major stakeholders, namely customers and investors.

As shown in Table 3, the results show 'increase timeliness and efficiency in obtaining financial information', 'helps users in the decision making process', 'provides another medium of disclosure', 'provides information for company inexpensively', 'provides accessibility to the users' and 'makes investment decision process easier and faster' as the main benefits of IFR to the company (mean > 3.50). Table 3 show that over 75% of the respondents either agree or strongly disagree that such policy benefits the users because they are able to increase timeliness and efficiency in obtaining financial information, help users in the decision making process,

provide another medium of disclosure, provide information for company inexpensively and provide accessibility to the users. In general, the respondents' perception shows that all the items are the benefits of IFR to the company (mean > 3.50).

A further analysis was carried out to investigate the perceptions of preparers of financial information toward the advantages and disadvantages of IFR. These items were extracted from various literatures (Wallman, 1995; Green and Spaul, 1997; Lymer and Tallberg, 1997; Joshi and Al-Modhahki, 2003). 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', and 'timeliness and updateability' as the two most important advantages from financial reporting on the Internet. This finding is consistent with others works (Joshi and Al-Modhahki, 2003). In general, the respondents' perception shows that all the items are the advantages of IFR (mean > 3.50). As can be seen, the results in Table 4 show that respondents perceived 'security problems' as the most important disadvantages of placing financial information on the Internet. This result is similar to the findings of Joshi and Al-Modhahki (2003).

Additional finding

We also gave open ended question to the respondent to obtain their opinion on IFR in Malaysia. The result can be classified into four main themes which are expressed by the respondents:

General

"It is easy to get the annual report but the information should be more complete" CFO 1.

"The IFR practices in Malaysia are focusing more on the

Table 2. Benefits to the company.

Item	Strongly disagree		Disagree		Neutral		Agree		Strongly agree		Total		Mean	Std. Dev.
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%		
Attract foreign investors					13	19.1	29	42.6	26	38.2	68	100	4.19 (1)	0.738
Promote company more wider to the public			3	4.4	8	11.8	33	48.5	24	35.3	68	100	4.15 (2)	0.797
Attract local investors					10	14.7	42	61.8	16	23.5	68	100	4.09 (3)	0.617
Provide wider coverage	1	1.5			12	17.6	34	50.0	21	30.9	68	100	4.09 (3)	0.787
Promote transparency			2	2.9	15	22.1	32	47.1	19	27.9	68	100	4.00 (5)	0.792
Attract potential customers			1	1.5	19	27.9	36	52.9	12	17.6	68	100	3.87 (6)	0.710
Discharge accountability	1	1.5	5	7.4	15	22.1	33	48.5	14	20.6	68	100	3.79 (7)	0.907
Enhance managerial efficiency	1	1.5	7	10.3	21	30.9	28	41.2	11	16.2	68	100	3.60 (8)	0.933
Improve financial performance	2	2.9	8	11.8	27	39.7	21	30.9	10	14.7	68	100	3.43 (9)	0.982

Table 3. Benefits to users.

Item	Disagree		Neutral		Agree		Strongly agree		Total		Mean	Std. Dev.		
	No.	%	No.	%	No.	%	No.	%	No.	%				
Increase timeliness and efficiency in obtaining financial information					14	20.6	33	48.5	21	30.9	68	100	4.10 (1)	0.715
Helps users in the decision making process					15	22.1	33	48.5	20	29.4	68	100	4.07 (2)	0.719
Provides another medium of disclosure			1	1.5	11	16.2	41	60.3	15	22.1	68	100	4.03 (3)	0.668
Provides information for company, inexpensively			4	5.9	14	20.6	28	41.2	22	34.4	68	100	4.00 (4)	0.881
Provides accessibility to the users			1	1.5	16	23.5	35	51.5	16	23.5	68	100	3.97 (5)	0.732
Makes investment decision process easier and faster					23	33.8	25	36.8	20	29.4	68	100	3.96 (6)	0.800

annual report" CFO 4.

"In my opinion, IFR is just a medium to disseminate the information through the internet" CFO 8.

"IFR in Malaysia just focuses on Bursa Malaysia performance" CFO 9.

"IFR in Malaysia is developing" CFO 10.

"The level of IFR practice in Malaysia is still at the infancy stage. Company do not fully explore the facilities on the Internet" CFO 15.

"For me, IFR is just a medium. The most important thing is the content. If the content is similar to the

hardcopy, with no value added, it makes little difference" CFO 16.

Advantage

"It is easy to get the financial information from interested parties. Some advantages of IFR are: information can easily access and download, can make a comparison between their ratio and more useful to the potential investor" CFO 2.

"The IFR practice in Malaysia is easily accessed

through Bursa Malaysia website" CFO 6.

"The big companies in Malaysia engage in IFR practice. The information is easy to access. It saves time and cost" CFO 13.

"The practice of IFR in Malaysia is useful for investor and financial analyst but the content should be accurate and comprehensive" CFO 14.

Disadvantage

"IFR in Malaysia is not widely implemented" CFO

Table 4. Advantages and disadvantages of IFR.

Item	Mean	Standard deviation	Rank
Advantages			
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
Disadvantages			
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

3.

“The IFR practice in Malaysia is hard to access. If you can access, the information is too limited” CFO 5.

“IFR in Malaysia is not a popular practice, not too many companies report their information through the internet” CFO 7.

Suggestion

“The level of IFR practice in Malaysia is satisfactory but still it needs improvement” CFO 11.

“IFR in Malaysia can be improved in term of their quality and content” CFO 12.

It can be concluded that almost all the respondents agree on the importance of IFR to be implemented in Malaysia. Otherwise, there are advantages and disadvantages of IFR; the rapid growth of the internet technology has created the ability for firms to directly and instantly disclose their financial and non-financial information to worldwide users. Owing to its capacity in providing information at high speed, internet technology can be accessed at almost anytime and from everywhere, although low costs dissemination and wide coverage that are considered by the companies to be important are disclosed on the Internet. In addition, the internet technology can become a perfect medium for information disclosure and communication.

Conclusion

This paper has investigated and reported on the preparer’s perceptions of the benefits, advantages and

disadvantages of IFR. Given that there is hardly any piece of empirical study on the benefits, advantages and disadvantages of IFR in Malaysia, this paper is an important contribution to filling the gap in our knowledge of this subject. Two important findings emerged from this study that can be used as a basis for future research. First, the respondents ranked that IFR implementation benefits the companies because they are able to attract foreign investors, promote the company to the public, attract local investors, provide wider coverage compared to the traditional form of annual reports and is better at promoting transparency compared to the traditional form of annual reports. Furthermore, IFR implementation benefits the users because IFR increases timeliness and efficiency in obtaining financial information, helps users in the decision making process, provides another medium of disclosure, provides information for company, inexpensively and provides accessibility to the users. Second, respondents perceived ‘global reach and mass communication’ as the most important advantage of IFR, while ‘security problems’ as the most important disadvantage of IFR.

In summary, this paper provides important insights into the benefits, advantages and disadvantages of IFR from the perspectives of preparers of financial information which has been neglected by prior research. However, this study has several limitations. 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. Secondly, studies may also survey various corporate stakeholder groups, including shareholders, management, users, relevant governmental agencies, managers, bank officers, tax officers, auditors

etc. to ascertain their perceptions of the nature and extent of IFR practices in Malaysia. Thirdly, questionnaire may not be the best way of collecting data about IFR. Further research could try other approaches, such as interviewing companies, preparers and users. Fourth, this study only focuses on Malaysia. The generalisability of the current study to other countries may be contingent upon the results of future studies on companies in those countries. Future research may investigate and compare the issue between countries, especially between developed and developing countries to shed light on benefits affecting disclosure that are not captured by the model used here. Furthermore, users' view on IFR should be further investigated, in order to develop an overall viewpoint of IFR. Replications of IFR practice in other national settings warrant potential research extensions of this paper. Finally, it is hoped that this study will be of interest to those in the investing community (preparers, users, regulators, stakeholders and researchers) towards IFR. Perhaps the findings should enhance the quality of IFR practices in Malaysia.

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