Internet Financial Reporting in Malaysia

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Abstract. The study is conducted primarily to examine the level of quality of Internet Financial Reporting (IFR) among the firms across the industries on the main board of Bursa Malaysia and to gain some insights on the utilization of potential internet technology in preparing the IFR. Besides that, the findings of the study would be of interest to the industries, particularly to the firms that prepare their financial reporting through the website in order to improve the quality of their IFR.

Keywords: Internet Financial Reporting, Electronic Government, Malaysia (Use "keywords" style)

1. Introduction

In Malaysia, one of the recent important innovations in the public sector is the use of the web and the Internet in information and communication technology. The success of electronic government policy is clearly shown in the public and private sector. In the private sector, it is reflected by the number of Malaysian companies that utilize internet financial reporting. The limitation given by the traditional paper-based format has led to the usage of the internet to be increased. Paper-based is less timely and thus less useful to the decision maker (Ashbaugh et al., 1999), and it cannot reach its existing investors or potential investors who might be everywhere. The rule of thumb in the accounting information system is to consider the information useful if it matches three criteria: it is timely, relevant and accurate. Therefore, IFR is believed to be the most sophisticated means for information to reach investors promptly at any time and any place, and helpful in satisfying investors' demand for a greater transparency of corporate activity. The reliability of IFR among the investors is proven as it is normally equipped by the potential of internet technology tools (Liu, Arnett, Capella & Beatty, 1997).

The study is conducted based on the following three objectives: Firstly, to examine the IFR practices among the firms across the industries in the main board of Bursa Malaysia. Secondly, to investigate the quality of IFR practices on four categories: content, timeliness, technology and user support. Thirdly, to examine the score quality of IFR in relation to firm size and percentage of free float shares. Khadaroo (2006) had conducted a comparative study on the implication of web technology on internet business reporting in Malaysia and Singapore. However, these studies particularly those in Malaysia only covered the descriptive part. They did not examine the level of quality of IFR. Quality here refers to what extent the firms have utilized the potential of internet technology in disseminating a financial report to the end users. This present study is further extended by examining the significant effects given by the firms' size (N log SALES) and the percentage of free float shares on the score quality of IFR practices. The theory of cost benefit analysis is used in predicting the relationship between the score and the firm size.

2. Methodology and Analysis

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The unit of analysis of this study was the Internet-based reporting of public companies listed on the Main Board of Bursa Malaysia for the ten[1] sectors. The latest list of the companies on the main board was gathered on 7 August 2007 from the Bursa Malaysia website. Sampled companies had to be on the main board and engaged in Internet-based reporting. The sample selected had to represent every industry. Since the study involved the Internet and web technology, the process of the study was made through the Internet as much as possible. The main board companies were chosen as the unit of analysis because they tended to be large and were likely to engage in Internet-based reporting (Deller et al., 1999). In selecting the sample, the stratified random sampling technique was applied. This often improves the representativeness of the sample by reducing sampling error (Malhotra and Bricks, 2003). Although 355 firms' IFRs were identified, only 318 could be accessed. Based on Sekaran (2003), the recommended sample for a 320-target population is 175 therefore the final sample under study was decided on 175 firms to represent Malaysian company by using statistical random table. Davey and Homkajohn (2004) and Pirchegger and Wagenhofer (1999) had used the same instrument in their studies to examine the quality of IFR practices. The proportion of marks for each category is 20 percent except for the content, which is 40 percent. Thus the total marks for the four categories is equal to 100 percent.

The details of each criterion are as follows: Content: The first category examined the presentation of the components of financial information, the number of years or quarters shown, historical information, language and address. Two most significant methods of designing financial and business reporting web pages were the Hyper Text Markup Language (HTML) and Portable Document File (PDF) (Momany and Al-Shorman, 2006) Financial information that is disclosed in HTML is graded two points, whereas information presented in PDF format is graded one point. Timeliness: The timeliness is only applicable to the HTML Internet-based reporting as web tools equip it (Khadaroo, 2006; Pirchegger & Wagenhofer, 1999; Davey & Homkajohn, 2004). The items examined in this category were the existence of press release, unaudited latest quarterly results, vision statement, stock quote and the frequency of updating the press release and stock quote. Davey and Homkajohn (2004) graded two points for the existence of the timely information and an added scale score ranging from one to three points was given based on the level of timeliness for press release and the stock quote.

Technology: The third criteria examines to what extent firms that were engaged in Internet-based reporting exploited the enhancement of Web technology in communicating the information to the stakeholders. Most of the companies used their websites for financial reporting. However, most of the companies tended to take simple approach towards web-based reporting (Willman, 2007). Their reports looked exactly like the paper-based versions The items investigated were the download plug in on spot, the online feedback, the use of presentation slides and multimedia technology, the availability of analysis tools (i.e. Excel's pivot table) and the advanced features, for example the XBRL. XBRL includes several layers of descriptions of the source of data. The only model that was maintained by theXBRL developers was the Meta Language (Meta data) (Wagenhofer, 2003). There was a lot of financial data tagging done in this financial and accounting language. User Support: The fourth category examines to what extent the firms' IFR facilitate the users. Davey and Homkajohn (2004) argued that the importance of providing user support was because the level of computer literacy was different among the users of information. Therefore, the final criterion examines whether the firms'. IFRs provide search and navigation tools such as Frequently Asked Questions, links to homepage, site map and site search, degree of accessibility to get the information (measured by the number of clicks) and the consistency of the web page design. A scale of zero to three was provided for a number of clicks to get the information and the consistency of the web page design is subjectively evaluated on three point scale (zero= poor, one= fair and two= good). Davey and Homkajohn (2004) evaluated the consistency of web page design in accordance to the convention of formatting, outline, font type and size, graphics and terminology. It is vital to note that, Davey and Homkajohn (2004) did not detail out the scale that they used in evaluating the consistency of the design.

Therefore, the evaluation for consistency of web page design is guided by the basic rule of web page design and layout from Grantasticdesign.Com. IFR is actually a supplement to the traditional-based reporting.

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[1] Namely, consumer product, industrial product, trading & services, finance, plantation, infrastructure, properties, technology, hotel and construction

There is a need to examine the factors influencing the quality of IFR prepared by the firms as identified by Pirchegger and Wagenhofer (1999)[2]. The justification for examining the chosen variables was due to the similarity of qualitative index used by Davey and Homkajohn (2004) in examining the quality of IFR. In order to gain some insights on the relationships, two hypotheses were tested based on company size and percentage of free float shares. The theory of cost-benefit analysis above explained that the cost of communicating the information was one of the incentives for larger firms to provide quality IFR that facilitated their users in gathering and analyzing the data. Notably, if those reasons provided incentives for the firms to communicate via the Internet, then it would encourage them to exploit the potential of web tools in presenting a good quality IFR to serve the ultimate users. The theory believed that, the higher the sales of companies, the higher would be the quality of IFR. Therefore, the present study would like to examine whether the firms' sales give a significant positive effect or not on the quality score of IFR. From that, the first testable hypothesis is given below:

1st Hypothesis: There is a significant positive effect of the firms' sales on the score of IFR.

Size can be measured in several ways for instance, annual sales, annual sales, number of employees, total assets employed, return on asset, market capitalisation and others. This present study will measure size in terms of the firms' turnover. The justification of selecting the turnover as the variable is because the researchers (Pirchegger and Wagenhofer, 1999) who had studied the web technology implications in IFR used the turnover as the explanatory variable to examine the relationship.

The second hypothesis is more related to the theory of network externalities. Network externality is actually the side effect of the network effect. According to Wikipedia (Wikipedia.com), a network effect is a characteristic that causes goods or services to have a value to a potential customer who depends on the number of other customers who own the goods or services. In this study, the network effect is referred to as the quality of IFR. The quality of the Internet-based reporting is measured in terms of exploitation of the web tools or the Internet technology advancement by the firms in disseminating information. According to the theory of network effect, the quality of IFR will increase as the users of IFR increase. The high score for quality of IFR is actually the side effect of having a great number of users of IFR. This is what has been explained by the theory of network of externalities in Deller et al. (1999). Pirchegger and Wagenhofer (1999) revealed that the small shareholders were the entities who made more use of the Internet in searching information for decision making among others. The small shareholder here referred to the share that was available to the public. These researchers used the percentage of free float shares to represent the number of shares that was opened to the public. They also found that the percentage of free float shares was significant in explaining the quality of IFR engaged by the Austrian companies. Marston and Polei (2004) also revealed that the firm size and percentage of free float shares were the significant explanatory variables for the quality score. Therefore, the second testable hypothesis given below is derived from the above theory and previous findings:

2nd Hypothesis: There is a significant positive effect of the percentage of free float shares on the score of IFR.

Therefore, in order to test the relationship of the quality score in relations to the firm size (total sales), and percentage of free float of shares in the case of Malaysia, the Binary Logistic Regression was chosen. In this Logistic Regression, no normality assumption was needed, the dependent variable was a categorical variable and the independent or the predictor variable could be continuous or categorical or a mixture of both (Pallant, 2001). Those requirements were met for this present study. Before the Binary Regression, the analysis took place, and the cut of point for the quality score had to be identified. Hence, there was a need to find out at what score the IFR could be categorized as achieving the quality. According to Davey and Homkajohn (2004), the firms' IFRs that achieved 50 percent and above were accepted as well developed websites. Therefore, in order to be more accurate in this present study, the cut of point for the quality score was calculated at 49.6 percent, which was rounded to 50 percent. The figure was derived from the average score of the 175 companies. Any firms in the sample that achieved a 50 percent score and above were

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[2] The significant effects given by the firms' sales and percentage of free float shares on quality score were examined.

identified as having achieved the quality score for IFR. Hence, the dependent variable had two outcomes. Firstly, was the firms' IFRs that achieved the quality score and secondly, the firms' IFR that did not achieve the quality score. (One=achieve, zero= did not achieve) In order to ascertain the significance of the relationship between the dependent and independent variable, a significant level of five percent was set.

3. Research Findings

The results from the qualitative index showed that 93 firms' IFRs (53 percent) achieved more than average quality score in terms of technology used in disseminating information and facilitating its user. However, a big portion of the total sample scored within the 40 percent to 59 percent marks. Twenty-seven percent of the firms scored 50 percent to 59 percent marks. Twenty-six percent of the firms scored 40 percent to 49 percent marks.

The top three scorers were Bursa Malaysia (94.44 percent), Integrated Logistic (80.13 percent) and SP Setia (76.63 percent). Most of the firms under study preferred to use PDF rather then HTML in presenting the content of the financial information except for the social and responsibility segment. Only one percent of the firms under study provided the auditor's report via the HTML format. The main reason might have been due to the security of information provided by the PDF format.

The firms' sales and percentage of free float shares were proven to give a significant effect on the quality score. The results from the Odds ratio revealed that there was a positive impact on quality score. The Odd ratios for N log Sales and percentage of free float shares were 1.399 and 1.021 respectively. This meant, as the sales increased, there was a possibility that the quality score would increase by 40 percent. Likewise, as the percentage of the shares that opened to the public increased, the quality score would likely increase by 2 percent.

4. Discussion and Implications

Not all of the firms realized the importance of providing the latest quarterly reports and the graphs to assist their stakeholders in reviewing their performance. It was quite surprising that many of them still did not update the financial information on the web eventhough they may have those reports in their own premises due to the compulsory requirement submission to the Security Commission.

Regarding the timeliness of information, the majority of them had press releases, which were dated two weeks ago from the date of investigation. Only three percent had timely press releases on the date of investigation.

Malaysian firms were considered good in designing their websites. This could be proven by the use of Multimedia technology. However, the attractiveness of the websites was not important to the shareholders as compared to providing the supporting tools such as analysis tools or financial tools (Khadaroo, 2006). Only three percent of the firms under study provided those tools. The favorable analysis tools offered by the firms were the data table in the forms of Microsoft Word and Excel.

The findings revealed that most of the Malaysian firms were good in facilitating users by providing helpful user support such as site search, link to homepage and the ease of access to financial information.

Among the four categories in qualitative index, user support was the category that was easily scored by the firms. It might be because it was a part of the web page design and it did not require any security information setting.

The designs of web pages were so attractive, where 82 percent of the firms' IFR s were graded as having a good consistency of web designs. Only two percent of them were considered as poor web designs. Eventhough the presentations of websites were excellent, the potential of technology was still under utilized.

5. Conclusion and future plan

The infra-structure provided by the government has benefited the private sector tremendously. So the private sector has to review ways of utilizing what the government has provided. The government has provided a lot of incentives for the private sector and the companies which did not utilize fully what has been provided should review their plan so that they fully utilize incentives given by the government. This present

study revealed that Malaysian firms did not fully exploit the technology available when presenting the financial information to their users. This was proven by 26 percent of the firms that scored within the range of 40 percent to 49 percent marks, which was considered a large number. However, the overall results revealed that more than half of them (53 percent) achieved a score above average, which regarded as a well-developed web site.

Since only three percent of the firms under study provide supporting tools such as analysis tools or financial tools it is recommended to increase this supporting tools so that users can perform the necessary analysis on their own. It may cost the companies to establish and maintain the IFR, but the cost incurred would pay off. The researchers concur with Abdul Latiff (2000) who stated that the biggest returns would be the ability to market and promote their companies to the stakeholders at any time and any place. However, at the moment, the IFR is voluntary in nature.

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