

A Comprehensive Analysis of Corporate Internet Reporting Practice in Malaysia

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Abstract: Through Corporate Internet Reporting (CIR), a company can provide the traditional annual report with additional financial and non-financial information in multiple formats on the corporate website. CIR is an important channel to present information to the stakeholders and considered as a precondition for a company's success. CIR offers an effective way in disseminating corporate information that can attract a wider range of national and international investors. The objective of this study is to investigate the nature and extent of CIR from the Malaysian perspective. A CIR index of 41 CIR attributes was developed for 380 Malaysian companies listed on the main market and the ACE Market of Bursa Malaysia. Data was analyzed using a descriptive statistical technique. From this sample, over three out of four companies have websites and are practicing CIR. The extent of CIR is discussed based on the industry type and specific CIR items. Our findings provide a better understanding of the level of CIR by these companies, towards encouraging more practices in the future. This study also contributes to the internet reporting literature in Malaysia.

Key words: Corporate internet reporting, financial reporting, Bursa Malaysia, stakeholders, main market

INTRODUCTION

Corporate Internet Reporting (CIR) has been defined by Jones and Xiao (2004) as the presentation of traditional annual reports with additional financial and non-financial information in multiple formats through corporate websites. CIR is a new and modern tool for disseminating information by corporations. The use of CIR is considered as a precondition for a company's success as it enables the corporate sector to present and disseminate business information to the stakeholders. Compared to the traditional paper-based reporting, the advantages of CIR include the 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. CIR also has the ability of providing a more interactive information using a faster and lower cost method.

The rapid development of internet technology and its impact upon business activities has captured the interest of academic researchers and accounting professional bodies to conduct research on CIR. Research on the internet reporting started in the mid 1990's. A substantial

amount of studies have been conducted in the developed countries with advanced capital markets, especially in the United States of America (US) and Europe. However, the findings from the developed countries with advanced capital markets may not be applicable to other countries with different stages of market development or different business environment (Aly and Simon, 2008). In Malaysia, although internet usage and population growth have noticeably increased, Malaysian Internet Usage and Telecommunications Reports, 2011 research related to CIR is still lacking. This is probably due to the Western-centric nature of leading research in accounting journals that neglects studies in the least developed countries (Hopper and Hoque, 2004).

In emphasizing the importance of CIR studies, Kelton and Yang (2008) mentioned that as corporate internet usage is constantly evolving, changes in the internet reporting environment demand continuous examination. The scarcity of in-depth studies on CIR in developing countries, particularly in Malaysia, motivates this study to provide a comprehensive outlook and better insight into the issues. This research aims to examine the extent of CIR by the publicly listed corporations through the content of corporate websites based on a developed CIR

checklist, the extent of practice on each CIR item and the practice of CIR based on different economic sectors.

Literature review: vespite the age of the internet which exceeds 30 years, the chronological literature of CIR only started in 1994 with the re-examination of the accountants' functions as well as other parties related to the accounting profession. These studies were carried out in the United States, the United Kingdom, Australia and Canada. The literature arose from the dissatisfaction and concern about regulations and activities of business reporting. An early study on the CIR in the business environment has been done by Lymer (1999) which states that there are several stages involved in the continuation of this new type of reporting. Other studies in the same period documented basic reconsideration of the primary accounting foundation that demands a global accounting standard and a full international prominence by the International Accounting Standards Committee (IASC) as well as changes in the European Union's role relating to accounting regulation. Subsequently, the importance of information management which was previously treated as a secondary task by business entities has been recognized as a critical activity in ensuring success. The information technology and its influence on accounting activities were evolving with the internet. In 1995, business entities started to pay serious attention to the technology following the development of the World Wide Web as one of the internet tools that has attracted increasing numbers of users around the world. Since then, the purpose of the internet for business entities has gone beyond advertising and electronic commerce activities to include reporting and dissemination of business information to stakeholders.

Motivated by the lack of studies on the Internet reporting in developing countries, Davey and Homkajohn (2004) examined the extent and quality of Internet Financial Reporting (IFR) by Thai corporations. The sample comprised the top 40 companies listed on the Thailand Stock Exchange. IFR was measured based on the content, timeliness, technology and user support attributes of corporate websites. Their findings revealed that almost all companies in the sample (37 companies or 92.5%) have websites and 30 companies disclose their financial reports online. The IFR scores ranged from 18-64% with an average of 41.78%. Out of the four categories examined, user support received the highest score and technology received the lowest score. The majority of the websites (92%) was published in English since most companies are export oriented. Specifically, Davey and Homkajohn (2004) found that the websites of

30 companies (81%) contained the PDF format of the complete financial statements and annual reports which included the interim reports. However, less disclosure was found with regards to share price history (35%) and dividend history (10%). As for the timeliness of published information, press releases were the most commonly provided in the websites (89%), followed by stock quotes and vision statements. However, none of the companies were found to report their latest unaudited quarterly results, irrespective of its function as the most up-to-date interim report. Moreover, only one third of the companies (11 companies) updated recent news on the websites. In the technology category, PDF format downloadable annual reports were the most commonly found attribute (31 companies). In the user support category, links to company home page was the most frequently found attribute on corporate websites (86 per cent). However, the study found that only some of the websites provided either site maps (54%) or site search (43%). Although, two companies required more than three clicks for an access to the financial information, this study acknowledged the easiness of access in the other websites. Davey and Homkajohn (2004) further concluded that Thai listed companies did not take full advantage of computer technological features to add value to their corporate disclosure, thus, their communication with stakeholders through the practice of online corporate reporting lagged behind the developed countries. In addition, the substantial variation in the practices of companies in terms of content and timeliness of IFR and insufficient formal guidance of IFR by the Thailand regulatory bodies raised issues of comparability and reliability of IFR practices by Thai listed companies.

In the Gulf Co-operation Council (GCC) countries, Ismail and Tayib (2002) examined the Internet reporting practices by 128 listed corporations in Qatar, Bahrain and Saudi Arabia. The study found that less than half of the companies (50 companies, 39%) had websites with financial information disclosure. In addition, the study indicated that companies in the banking and investment sectors were more likely to practice IFR than companies in other sectors. In Jordan, the growing concern of the International Accounting Standard and the Financial Accounting Standard Board on the Internet medium to disseminate financial information motivated Momany and Shorman (2006) to conduct the first internet reporting study. This research examined the existence of corporate websites and the extent of IFR practice of sixty companies listed on the first market of Amman Stock Exchange. The companies consisted of the industrial, service and insurance sectors. The study found that less than half of the companies had websites (27 companies, 45%) with

the highest number of companies in the service sector (50 %), followed by the industrial sector (44%) and the insurance sector (40%). Nearly three quarters of the websites (19 websites, 70%) provided financial information online. It was found that approximately half of the websites (53%) provided the financial highlights, six websites (32%) provided comprehensive financial information and three websites (16%) provided summary financial statements. Financial highlights were provided by companies in all three sectors, comprehensive financial information was provided by companies in the service and industrial sectors and only companies in the industrial sector disclosed summary financial statements.

In Malaysia, corporations are also impacted by the development of internet reporting technology. Ismail and Tayib (2000) examined the issue by focusing on the type and extent of information disclosed through the internet by Malaysian corporations. This study analyzed 750 companies listed on the first and second board of the Kuala Lumpur Stock Exchange (KLSE). The companies were grouped according to six activity sectors: trading and services, property and infrastructure projects, construction, consumer products, industrial products and finance. Less than one third of the companies (218 companies, 29%) had an accessible website link to the KLSE home page with the highest number of companies in the industrial products sector, followed by the trading and services sector, the finance sector and the construction sector. To examine the type and extent of information disclosure on the internet, Ismail and Tayib (2000) classified the information into three categories: non-financial information, supplementary financial information and financial statements.

Descriptive analysis on the non-financial information showed that frequently disclosed information were corporate profile (195 companies), corporate information (113 companies), corporate structure (81 companies) and chairman statement (56 companies). Meanwhile, the least frequently disclosed information were notice of annual general meeting (33 companies), list of properties (32 companies), statutory declaration and auditors report (30 companies), terms of reference of audit committee (29 companies) and proxy form (25 companies). In the supplementary information category, frequently disclosed information were financial highlights (76 companies), review of operations (55 companies) and interim reports (32 companies). The result of the chi-square test indicated a relationship between listing status and all three components of supplementary information, also between activity sectors and financial highlights and interim reports. Specifically, companies listed on the first board were more likely to disclose supplementary information

compared to the companies listed on the second board. On the other hand, companies in the trading and services sector and the finance sector were more likely to disclose financial highlights and interim reports. In the financial statements category, the disclosed components were profit and loss accounts (36 companies), balance sheet (33 companies) and cash flow statement (31 companies). All three components of financial statements were found to be related to listing status and activity sector. Large companies in the industrial products and finance sectors were more likely to disclose financial statements. Different results were yielded when the components were further divided into partial and full financial statements. The extent of financial information disclosure through the internet by the companies was found to be not related to either listing status or activity sector. Ismail and Tayib (2000) further concluded that the practice of internet disclosure of the Malaysian companies in terms of number and percentage of companies disclosing specific information was far behind developed countries such as the UK, the US and Germany.

Mohamad *et al.* (2003) extended the study by Ismail and Tayib (2000) by focusing beyond examining the extent of internet disclosure and to include investigating the internet features adopted by the corporations in practising internet reporting. The examination was conducted on the entire population of 868 companies listed on the KLSE. Mohamad *et al.* (2003) found that 236 companies (27%) had websites linked to the KLSE home page, a slight increase from the 218 corporate websites found in the previous study by Ismail and Tayib (2000). However, only 122 companies were found to have financial information disclosure on the websites and the majority of these companies were from the trading and services sector (20.5%). Consistent with Ismail and Tayib (2000), profit and loss accounts were the most frequent financial information disclosed by the companies (93.4%), compared to balance sheet, cash flow statement and statement of change of equity. The least reported information were the directors' reports (72%) and auditors' reports (71%). The majority of the companies (86 companies, 70.5%) disclosed comprehensive annual reports while a small percentage of companies disclosed partial annual reports (8.2%). The remaining companies did not disclose their annual reports online (21.3%). Only 49 companies had interim reports available on their websites, implying that it was the least frequent type of report disclosed by the companies through the internet. The most frequently disclosed non-financial information was corporate structure (81%) and the least frequently disclosed information was corporate social reporting (4.9%).

Looking at the technological features, Mohamad showed that most companies (75.4%) provided financial information in a PDF format. Other formats included the use of general feedback email (98%), graph and charts (26%), technical hints (24%), internal search engine (19%), html format (45.9%) and zip file (8.2%). Only one company provided financial information using the Microsoft excel format which allows users to manipulate the data. Meanwhile, none of the companies used audio or video files. With regards to the user support features, this study observed intuitive home page address and a separate section of financial information in 96 and 89% of corporate websites, respectively. 75% of corporate websites needed two or less clicks to access into the financial page and 46% websites had site maps. Based on these results, Mohamad suggested that the practice of online financial reporting by the Malaysian listed corporations is fairly acceptable. However, the disclosure of non-financial information and updated information was considered as relatively low. In addition, the result of a very low adoption of technological and user support features showed that companies were not taking full advantage of the internet features offered in practising internet reporting.

MATERIALS AND METHODS

The initial sample for this study consists of 978 companies under the Main Market and the ACE Market. Using the technique of systematic random sampling to select representatives for each of the eleven economic sectors, the final selected sample comprised 380 companies.

A CIR index is used to examine the extent of CIR practice. The CIR index is based on a review of the web based business reporting framework by FASB and by referring to Pirchegger and Wagenhofer (1999), Deller *et al.* (1999) and Marston and Polei (2004). The attributes of the CIR index consist of 41 items which are categorized into groups of accounting and financial information, investor relations, forward looking data, technological advantage and user support.

Data were collected by examining the level and extent of CIR practice in each sample corporate website based on the presence of each 41 CIR attribute. This study uses an unweighted index for scoring each item in the CIR index, applying a dichotomous score of 0 and 1. A score of 1 is assigned when any specific item is disclosed or practiced by each company's website, otherwise the score is 0. Each company's score is calculated by summing up all the scores awarded to the company. The extent of the CIR practice by each company is measured by the formulae that divides each company's CIR score over the total CIR score.

In previous studies, there is no theoretical basis to decide upon the period to monitor corporate websites. Considering the dynamic development of internet technology that is reflected in the fast change of the corporate websites' content and layout (Deller *et al.*, 1999; Khadaroo, 2005) this study uses a time span of two months to examine the existence of CIR attributes on the websites of 380 selected Malaysian listed companies.

RESULTS AND DISCUSSION

From a total of 380 companies, 82% are found to be practising CIR through corporate websites. Only 20% of selected companies from the Main Market do not have websites, while all companies selected from the ACE market have corporate websites. High existence of corporate websites in both the main market and the ACE market shows that the basic mechanism for corporate internet reporting is in place. It also shows that CIR has been widely accepted and used by a significant number of listed companies in Malaysia as a means of communication to provide information for their stakeholders.

In this study, we find that all sample companies in both hotel and infrastructure sectors have corporate websites and show evidence of practising CIR. Companies in the hotel sector could be using online marketing strategies and utilize the internet for promotion purposes. The strong growth of the Malaysian tourism industry and the increasing number of tourist arrivals in Malaysia also provide better opportunities for the Malaysian hotel industry. The websites play an important role in providing online booking and payment facilities to customers from all over the world. In the infrastructure sector, the high CIR practice could be the result of the Public-Private Partnership under the 10th Malaysia Plan, where companies are encouraged by the government to engage in high value added activities and corporate websites provide the channel for companies to attract potential investors. On the other hand, one company of the mining sector in our sample do not have a website. Mining companies are involved in the extraction of valuable minerals or other geological minerals from the earth. However, consumers usually receive the processed final products that are ready to be used. End consumers may not be interested in information regarding the raw material extracted by the industry, hence providing less incentive for mining companies to maintain a corporate website.

On average, only 12 out of 41 CIR attributes are found in the corporate websites of the companies. Further, analysis is carried out based on specific items

from the CIR index. First, in relation to the accounting and financial data, 152 companies (almost 50%) provide these data on their websites through a hyperlink to annual reports. Secondly, in relation to the investor relation disclosure, almost all companies in the sample (299 companies, 97%) publish their corporate websites in English. This is possibly due to the fact that English is the international language of the business world and it helps to expand the global reach of the corporate websites. In providing information for the investors, companies mostly emphasized the contact details, specifically, the postal address and telephone number of their investor relations officer or department. The postal address can be found on 95% of the websites and 94% of the companies added a telephone number. In addition, the majority of the companies (229 companies, 74%) is found to disclose the email address of their investor relations officer or department. With most companies providing contact details, CIR is not only used by companies as a medium of information dissemination but also as a medium of communication with their stakeholders and the general public. This also suggests the readiness and openness of the companies in be responsive to their queries. Companies also provide disclosure on general news (164 companies, 53%), press releases (111 companies, 36%), current stock price (81 companies, 26%) and corporate social responsibility information (81 companies, 26%). Few companies disclosed stock price performance (58 companies, 19%), frequently asked questions (34 companies, 11%) and analyst reports (23 companies, 7%). Only three companies (1%) provided the latest information and one company (0.3%) shared video files of management presentation and shareholders meeting on corporate websites. Surprisingly, not a single company provided monthly or weekly sales or operational data on their websites, showing that Malaysian companies are not prepared to provide real-time information to stakeholders. This is contradictory to the expectation and demand of investors to obtain effective real-time reporting from companies due to the declining value of financial information over time as mentioned by Jones and Stanwick (2001). Perhaps, the lack of willingness to provide such information is possibly due to fear of losing their competitive advantage from the increasing transparency through real-time disclosure. Thirdly, our findings show that companies are not eager to disclose information on forward looking data. Few companies provided disclosure of new products (13%) and future goals or plans (<5%) while only one company disclosed future sales or earnings. Disclosure of industry trend was not found on any corporate website, showing that none of the sampled companies are concerned about disclosing this type of information.

The little disclosure of forward looking data can be supported by several reasons. First, information such as future sales or earnings and future goal or plan can be considered as confidential by companies and not to be shared with the public. Secondly, disclosing forward looking data through the most advanced communication technology (internet reporting) will expose companies to the risk of proprietary cost. In other words, there is a concern that the competitors can easily access information about their companies and utilise the information to detriment income producing activities of the companies. Thirdly, despite the demand from most investors for companies to provide information about their future plan and projection, investors often observe a lag between the planning and the implementation. Therefore, companies are concerned about the possibility of lawsuits in the event of failing to execute the projected plan. The FASB mentioned that electronic documents are not excluded from the possibility of facing lawsuits filed by investors based upon particular disclosures contained in the documents. This possibility can deter companies from disclosing forward looking data on their corporate websites. Fourthly, in the technological advantage category, our findings reveal that 152 companies (49%) provided their annual reports in a PDF format. Only 24 companies (7.7%) presented annual reports in both PDF and HTML formats, showing that not many companies are willing to offer an alternative viewing method. The PDF format duplicates the printed report into an electronic report, and advantages include easy creation from the original document, disallowing inadvertent alteration by users and lower cost consideration. In addition, the PDF format is a plug-in on-the-spot feature where the structure of the online document is similar to the paper-based reports. Therefore, by using a PDF format, companies can also have a maximum control of how the information is presented and can avoid legal risk in the event of publishing inaccurate financial data.

Total 128 companies disclosed site maps (41%) to provide user-friendly websites and 110 companies (36%) use boundaries techniques to assure users that the annual reports were reviewed by the auditors. The findings suggest that companies with this attribute in their websites are demonstrating the accounting and financial information integrity. This is important as audited financial information is claimed as a reliable source of information that can be used by the investors in making investment decisions. Meanwhile, only 53 companies (17 %) provide email alerts on their websites. The low percentage implies that companies are less concerned about keeping their investors and other interested parties updated with any changing events via email and only depend on published announcements

through the websites. In addition, very few companies are found to provide webcast or video files (26 companies, 8%). In fact, the webcast and video files found on the sampled companies' websites are all related to the historical or archived data. Specifically, only one company posted a webcast of the annual general meeting, while others showed corporate videos, advertisements and television news. Surprisingly, none of the companies used webcast and video technology to engage stakeholders in companies' live events such as online meetings, conference calls and analyst conferences. Therefore, we can conclude that the potential benefits of this new technology in providing a means of real time communication, especially for investors and analysts and to gain access to the companies' live events have not been fully utilised by those companies. In other words, companies are not adequately prepared to leverage on this new technology in order to gain the real-time advantage offered by CIR. Only ten companies (3.2%) provided slideshows to present their corporate information, suggesting limited choices in the viewing method. In addition, although e-commerce technology is available, only ten corporate websites were equipped for e-commerce transactions. None of the companies are found to have the attributes of downloading and processing financial data on their websites. Considering the low cost of utilizing this feature, the findings imply the companies' unwillingness or ignorance to take full advantage which could have assisted investors to perform computer-based analysis in making useful decisions.

Finally, under the user support category, most of the corporate websites can be searched through external search engines such as Google, MSN and Yahoo! (302 companies, 97%). This suggests that most of the corporate websites are easily accessed by internet users. The lowest attention was given by companies to enable other calculations in the corporate websites although this attribute can add value to the CIR (27 companies, 8.7%). The findings on the easiness of access to the investor relations and annual report page are not satisfactory. The 174 companies' websites (56%) require one click to access to the investor relation's page and 123 companies' websites (40%) require three clicks or less to access the annual reports. Furthermore, only 25% of companies are found to have an internal search engine on their websites, reflecting a poor awareness of companies in providing users with easy access to the corporate websites.

CONCLUSION

The development of CIR is a relatively new but rapidly growing phenomenon of business corporations to

present their corporate information (Yap *et al.* 2011). However, in spite of various advantages offered by the CIR, the findings confirmed a low practice of CIR by the Malaysian public listed companies. Only one third of the total CIR attributes and CIR specific categories are provided on the corporate websites. Companies need to improve the level of CIR practice by increasing the number of CIR attributes disclosed in their websites. This is important to ensure that the companies can take full advantage of CIR and offer more benefits to the users. The findings of this study can provide better understanding of companies concerning the level of CIR to further increase the practice in the future. CIR presents an effective way to disseminate corporate information to attract a wider range of national and international investors. The findings of this study also contribute to the internet reporting literature in Malaysia.

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