CHAPTER 5
CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter attempts to conclude the research findings with respect to the extent of financial disclosure at the corporate Web sites on the Internet. It also discusses the implication of the study and recommendations for future research.

5.2 Summary and Conclusions

This study is divided into two sections. The first being the descriptive analysis of the top 100 companies listed on KLSE on the disclosure of financial and non-financial information at the corporate Web sites of the sample firms. The second part of the study was carried to examine the relationship between the extent of financial disclosure on the Internet and five firm specific characteristics, namely firm size, financial leverage, assets-in-place, type of audit firm and number of shareholders on a sample of companies listed at KLSE that maintained corporate Web sites.

5.2.1 Descriptive Analysis

Base on the online survey of the firms Web sites, it is noted some firms indexed their financial information on their main page. Some are located under the heading investor relations, while others buried their financial information on pages labelled 'firm history', 'about us', 'corporate profile' or 'other information'. In summary the financial information is easily located in the Web sites.

Findings from the study showed the type of information and the extent of financial statements disclosure on the Internet among KLSE public listed companies. Frequency analysis suggests that the number of companies having corporate Web sites is increasing. Properties, finance, infrastructure project companies and construction sector have the highest percentage of companies having Web sites. It is not specifically known why companies in these three sectors have the highest level of Internet disclosure. This may due to the nature of businesses that deal with the public at large and need to disseminate information at the fastest speed possible. The analysis also suggests that more companies have started to use corporate Web sites to disseminate information. The findings suggest that financial highlights are the most frequent information disclosed. This is followed closely by quarterly report and annual report. The findings show that Malaysian companies are far behind developed countries such as the U.S, U.K and German but are catching up rapidly.

Further analysis reveals that companies tend to disclose more general information such as the corporate profile, corporate information and corporate structure as compared to financial information. Corporate announcements that are of interests to investors have also shown improvement in increased disclosure. The share price of the company, which has not been examine previously has reported a disclosure ratio of 19 percent. It would be interesting to re-examine this share price disclosure to ascertain whether it has increased or not. However disappointed to note that none of the companies disclose recent financial information (monthly sales or financial performance). This is consistent to the findings of Nik Salleh *et al.* (2000).

In regard to dissemination of financial information, not all firms' disclosures are current. Some firms provide the last 5 years annual reports while there are some firms disclose only the last two years annual reports. Whilst it is good to note that all annual reports are in downloadable Adobe Acrobat pdf format to facilitate information analysis by users, none of the companies have made full use of the hyperlink to enhance the usefulness of financial information. Hyperlinks enable firms to integrate information in the balance sheet, profit and loss account, cash flow statement and notes to the accounts. It facilitates the linkage between the balance sheet or the profit and loss account and to the notes to the accounts.

Overall, the results from this top 100 KLSE listed the number of Malaysian companies publishing financial information on the Internet is still behind developed countries. The percentage of companies who published the annual reports (47.8 percent) is still below the developed countries such as the U.S of 93 percent (FASB 2000) and in U.K of 85.7 percent (Hussey *et al.*

1998). However it is improving compare to the earlier study by Ismail and Tayib (2000) of 11.5 percent.

5.2.2 Analysis of Extent of Financial Disclosure in the Internet

The second part of the study was carried to examine the relationship between the extent of financial disclosure on the Internet and the firm size, financial leverage, assets-in-place, type of audit firm and lastly number of shareholders.

Firms do not have to maintain a corporate Web site, and even if they do, they are not required to provide any on-site financial information. However, based on the result of this study, most companies disclosed both financial and non-financial information voluntarily at their corporate Web sites. Compared this result to that of the top 100 KLSE listed companies, it is noted that the disclosure ratio of annual reports and quarterly reports has dropped to about 35 percent, financial highlights reduced to 44 percent. Similar trend is also prevailing for non-financial information. For example, the percentage of corporate announcement has dropped to only 47 percent compared to earlier of 71 percent. This suggests that bigger firms by market capitalization are more likely to disclose information voluntarily.

Of the required and voluntary items disclosed in the Internet, there is a great deal of variation in both the frequency with which the items are presented at Web sites and the number of items that are presented at any one site. Data item frequencies range from 47 percent of sites for corporate announcement to zero percent for monthly financial data. The disclosure of required and voluntary items on the Internet is 34 percent and 16 percent respectively. Hence on average firms provided about 20 percent (two of ten) items sought after at each Web site. This trend is similar to the findings of Ettredge *et al.* (2000a) but in the case of the U.S. the percent for both required and voluntary items are higher at 51 percent and 12 percent respectively. Hence on average the total disclosure percent in the U.S is slightly higher than in Malaysia at 38 percent.

The results of both the univariate and multivariate tests are consistent. They suggest that firm size, proportions of assets-in-place, number of shareholders are statistically significant to the extent of financial disclosure at the Internet. Firms that engage in financial disclosure of information at the Internet, on average, tends to be larger companies in terms of market capitalization, have larger number of shareholders and have lower proportions of assets-in-place. Firm size and the number of shareholders are the most strongly significant variables. Similar finding is obtained when size variable is replace with the listing status (first board or second board). This indicates that larger firms have the financial resources to engage in Internet reporting. At the same times, the financial information can reach wider array of audience, which could eventually stimulate the public interest in investing into that company.

In contrast, the financial leverage and auditor hypotheses are not supported in both the univariate and multivariate analysis. This suggests firms audited by larger audit firms would not necessarily engage in Internet reporting. Therefore it would appear that audit firms are not able to exert influence in so far as Internet reporting is concerned. This would possibly be due to the fact Internet reporting is a technological issue which needs to be resolved within the management of the company. Further study to explore this would provide plausible explanation.

Similarly firms with high leverage are also not necessary engage in Internet reporting in order to reduce information asymmetries. They can engage other form of voluntary financial disclosure to reduce information asymmetries. These could come in the form of compulsory disclosure of certain financial information at fix interval to debtholders as specified in the debt contracts or through the provision of debt covenants in the contract. Hence Internet reporting does not help the firms to reduce agency costs.

5.3 Contributions and Implications to Policymakers

First, this study adds to the existing local accounting literature on Internet reporting. Previous research both local and overseas have concentrated mainly on the descriptive statistics, the present study extends to the coverage to include firm specific characteristics such as the firm size, financial leverage, assets-in-place, type of audit firm and the number of shareholders. It also extends the study of Ismail and Tayib (2000) who has only evaluated the relationship between KLSE industry sector and listing status and Internet reporting.

Second, base on the study it is noted that firm size is the most significant variable that explains the extent of Internet reporting. It implies that larger firms have the financial resources to volunteer information in the Internet to reduce information asymmetries. This means that the shareholders of larger firms would receive more information compared to smaller size listed companies. A possible implication to the policymakers is that they may have to consider the information needs of users of smaller firms' annual report. However, in so doing, the policymakers should take into consideration the cost and the potential benefits associated with the increased disclosure by smaller companies.

Third, the findings of the study also suggest the positive association between the number of shareholders and Internet reporting. It implies firms use Internet to supplement the traditional printed annual report and also to communicate wider audience base. While the cost of disseminating of information via Internet is decreasing, with expanding the number of audience, the question is whether the information disclosed over the firm's Web sites have the same level of reliability as to the printed annual report. Thus Internet reporting is a concern to the corporate reporting regulators.

Fourth, while the study suggests that majority of the firms engaged in Internet reporting, there are substantial difference in the quality of the firms' reporting practices especially on the timeliness and hence usefulness of the information. Some firms provide online the last five year annual reports and 10 year financial highlights, whilst other firms reported out-dated annual reports, for example two year old annual report. The usefulness of the financial information is subject upon the ease of access and obtaining them. Therefore, accounting standard setters and regulators may consider standardizing the form and content of financial disclosure at the Internet.

Fifth, Internet reporting has the potential to decrease or minimize information asymmetries if all users of financial information are linked to the Internet and have similar levels of expertise in surfing the Web. Alternatively information asymmetries could potentially increase if firm chooses to restrict the access to financial information to certain classes of financial information users. Moreover, information asymmetries may also increase if the information is unreliable and disseminated to ignorant users.

Sixth, generally financial information is considered reliable if independent auditors audited it. Internet reporting could generate unreliable information in two ways. The first being that firms may report unaudited financial information. Unaudited information has the potential of shifting the risk from the firm to information users. Alternatively insufficient Web site security can result in reliable information being subjected to malicious acts by information intruders and transformed to unreliable information. Regulators must look into this matter seriously and formulate Web based security standards for Internet reporting.

Seventh, as users of financial information demand for timely financial information increased, more companies will engage in Internet reporting to supplement the traditional paper based annual report. As a result of the increase in demand and supply for electronically disseminated information may also increase the demand for the attestation services by accounting professionals. The accounting professions should consider upgrading the existing IT knowledge and the implication of the existing accounting syllabus for undergraduate students in the local university and also the professional examinations conducted by the accounting body.

Lastly, the disclosure of financial information on the Internet is voluntary in nature, the variation in Internet reporting practices document in this study suggests that firms incur differential costs and benefits associated to their dissemination of financial information via the Internet. Policy makers should consider the nature of firms' costs and benefits before mandating or further regulating firms' financial disclosures on the Internet.

5.4 Recommendation for Future Research

Although this study revealed a pattern of information published on the Internet by Malaysian companies, it also has a number of limitations that need to be addressed.

First, it focused only on firms having their Web sites linked to KLSE homepage. Even though additional samples were picked up during the online survey, it is not sufficient. Efforts must be extended to include more companies in the study in order to arrive at a more concrete finding.

Second, even though the study has investigated five firm specific characteristics, no efforts were made to ascertain the timeliness of the financial disclosure. More specifically, future research should extend the present study to investigate the time lag between the earning announcement and the posting to the corporate Web site at the Internet. Another area that warrants further study is on the reliability of financial information disclosed and the role of independent auditors in ensuring the reliability of this information. A third area that can be researched on is the impact of information clientele on the content of information disclosed. Given the low cost of provision of information, will firms provide information that meets the needs of different information users?

Third, the present study only examines the extent of voluntary disclosure using cross-sectional data for a single year – 2000. Future research could test the robustness of the present study findings by extending empirical analysis over a longer period of time. Additionally, comparative agency-based studies using from data from multiple-listed companies of the other South East Asian countries could yield some interesting empirical results.

Fourth, the disclosure index used by this study, which comprises of compulsory and voluntary disclosure items is very limited. Future research should increase these items to include the company's initiatives in research and development, employee information such as the number of employees, categories by gender and race and so forth, segmental reporting, social reporting and value added information such as the environmental protection program, community development program etc and future prospect of the company which includes the forecast sales and profit and the underlying assumptions in arriving at the forecast.

Finally, as the present study can be taken as the first initiative to investigate Internet reporting, it is expected that the Internet technology will be accelerating at an enormous pace. Therefore the role of Internet would not be restricted to just providing financial information, a reprint of the traditional paper based annual report. It is expected with Internet, the financial disclosure will certainly provide more advantages over the out-mode annual report, by improving timeliness, allowing interactivity and publication of more updated financial data on a more frequent basis.

5.5 Conclusion

The current study extends the previous research of Ismail and Tayib (2000) who examine the characteristics of firms engaged in Internet reporting. They have examined only two variables namely the listing status and the industry classification. Present study has reviewed additional five characteristics that are the firm size, financial leverage, assets-in-place, type of audit firm and number of shareholders. The results of the study suggest positive association between extent of disclosure and firm size and number of shareholders. On the other hand, financial leverage and type of audit firm does not have significant association with the Internet reporting.

The research is considered timely as more companies are using Internet as a medium for information dissemination. Hence it is of importance for the accounting professions to understand the potential impact and risk related to Internet reporting. It is also timely to reassess the potential benefits and costs associated with dissemination of financial information via the Internet and to formulate clear guidelines for future financial reporting.