CHAPTER 3: INTERNET FINANCIAL REPORTING (IFR): MALAYSIAN SCENARIO

3.1 Introduction

Many studies have attempted to identify the determinants of Internet reporting in developed countries, as discussed in Chapter 2. Since the late 1990s, Internet reporting has been the subject of substantial academic research, however, the literature is dominated by empirical studies in the U.S.A. and the industrialised countries of Western Europe (Lymer, 1999; Craven and Marston, 1999; Pirchegger and Wagenholer, 1999; Gowthorpe and Amat, 1999; FASB, 2000; Debreceny et al., 2002; Gray, 2001; Marston and Polei, 2004; Abdelsalam and Street, 2007; Kelton and Yang, 2008). Even, internationalised comparative studies on Internet reporting have only focused on analysis of the similarities and differences of Internet reporting practices in these countries (Bonson and Escobar, 2006). It is dangerous to generalise these studies' results to developing countries, as the economic development stage is likely to be a major factor affecting Internet reporting practices. Moreover, other differences in terms of nation and culture are likely to affect accounting practices (Gray, 1988). This study intends to address the above-mentioned imbalance through an investigation of the Internet disclosures of Malaysian listed companies. This study extends the prior studies by examining the influence of corporate governance and the effects of the unique ownership structure of Malaysian companies on the voluntary Internet disclosure.

As discussed in Chapter 1, the Malaysian Government has attempted to improve disclosure transparency following the 1997/1998 Asian financial crisis. IFR is part of the reform efforts by Bursa Malaysia to improve the disclosure and transparency level of Malaysian listed companies. However, relationship-based capitalism places transparency reforms in a different context to other developed market-based capitalism in the West (Rodan, 2004; Adhikari et al., 2006).

The remainder of this chapter is organised into three sections. Section 3.2 briefly discusses relationship-based capitalism in Malaysia and the reforms since the financial crisis. Section 3.3 reviews the Malaysian literature on Web reporting. This section examines practices and issues relating to the recent development of the Internet as a channel of corporate financial information dissemination by Malaysian companies. A review on corporate governance and other voluntary disclosure studies are presented in Section 3.4. Section 3.5 analyses the past literature. This chapter ends with a summary in Section 3.6.

3.2 Capitalism, Crisis and Reforms: Malaysia

3.2.1 Relationship-based Capitalism

Since the 1970s, in less than 40 years, Malaysia has successfully transformed itself from a racially divided country to a united country, where multiracial harmony is a significant characteristic. What is more, in a single generation, Malaysia moved from an agriculture and commodity based economy to become a player in the global K-Economy (Norhashim and Aziz, 2005). The method by which Malaysia achieved its current success has been complimented, criticised and condemned due to its relationship-based method of doing business.

Relationship-based system is one, which lacks explicit contracts, is less reliant on legal enforcement and has less emphasis on transparency (Rajan and Zingales, 1998). The designation of this system is to preserve opacity, which offers protection to relationships from the threat of competition. It works best when capital is scarce and the enforcement of contracts is poor. This system maintains that "in the real world with all its imperfections, an imperfect cost of funds can sometimes produce the right investment decisions" (Rajan and Zingales, 1998, p.42).

The major weakness of the relationship-based system is that the development of institutional infrastructure is insufficient to allow direct contracting between the lenders and borrowers; lenders are not making known whether their funds are being deployed appropriately. Therefore, their investment is not protected due to the lack of institutional safeguards. According to Rajan and Zingales (1998), the conflict between the two financial systems (relationship-based system vs. arms length system) led to the financial crisis 1997. On one hand, foreign lenders were willing to take the risk for high rewards, while on the other; they were powerless and unprotected by institutional safeguards under the relationship-based system. Since, their capital is short term and always at the ready for flight, this system is therefore prone to shocks.

A major reason why a relationship-based system does work is because it "is largely self-governing; parties intent on maintaining their 'reputations' honour the spirit of agreements (often in the absence of any written contract) in order to ensure a steady flow of future business within the same network of firms" (Rajan and Zingales, 1998, p.41). In other words, the objective of productive and optimal resource allocation within the economy is met. Failure would be the pouring of resources into non-productive ventures, for example, the misallocation of resources.

The 1997 financial crisis threw into relief not only the weaknesses but also hitherto unknown strengths of the relationship-based system. Highly, risky economy-wide solutions could be administered quickly in an almost autocratic manner (Norhashim and Aziz, 2005). The relaxing of red tape can be a boon. Such flexibility may not be possible in a procedural system where an arm's length system is operating, because institutional safeguards are an integral part of such a system. However, these can be dispensed with under the relationship-based system allowing for deliberate sacrifice of partisan interest in favour of the nation's interest.

3.2.2 The Financial Crisis: Malaysian Experience

In mid-1997, after the collapse of the value of the Thai Baht, currency speculators were perceived to have maintained the same unsustainable U.S. dollar quasi-pegs for their currencies on other countries in the region. During the first half of 1997, some argue that the Malaysian Ringgit (RM) was slightly overvalued when it hovered around RM2.5 against the U.S. dollar (Jomo, 2006). On 2^{nd} July 1997, after the Baht floated, the Malaysian Ringgit like other currencies in this region came under strong pressure. This was because during the early and mid-1990s, Malaysia had maintained a large amount of deficit in its current account. By mid-July, Bank Negara's efforts to defend the Ringgit actually strengthened it against the 'greenback' for a few days before they abandoned the futile defence. It cost some RM9 billion (then over U.S. \$3.5 billion). By January 1998, following the Filipino Peso, Indonesian Rupiah and Thai Baht, the Ringgit floated, falling to its lowest level ever in mid-July 1997 to almost half the value it had held against the U.S. dollar (Jomo, 2006).

Devaluation reduced the Malaysian assets foreign exchange value. In the first quarter of 1997, the Bursa Malaysia stock market fell sharply with the main Composite Index (KLCI) dropping from over 1,300 to less than 500 in January 1998, then, in August 1998, to around

300, and on 2nd September to 262, the day before the initial announcement of the capital control measures (Jomo, 2006). The stock market collapse triggered a vicious cycle of asset price deflation involving the flight of domestic and foreign portfolio capital. Lending institutions made margin calls requiring more collateral as the result of lower asset prices. Foreign lenders rolled over their short-term loans reluctantly. For a variety of reasons, interest rates also increased, exacerbating the effects of reduced liquidity (Jomo, 2006).

During mid-1998, like the currencies of other crisis-hit economies, the Ringgit fluctuated wildly until 2nd September 1998 when the government fixed the Ringgit at RM3.8 against the U.S. dollar. Adverse perceptions of the regional situation and developments induced the Ringgit to much downward pressure. The political leadership's ill-advised political rhetoric and policy measures exacerbated the situation (Jomo, 2006).

Domestic and foreign speculators fuelled the panic as investors scrambled to get out of positions in the regional currencies including the Ringgit. This caused the stock and other markets, as well as currencies, to fall further and with them, caused a fast vicious circle. With financial liberalisation and the minimal exit restrictions that the Malaysian and other authorities in the region had prided themselves on, the fund managers had increasingly more investment options to choose from and could move their funds much more easily than ever before. The magnitude and nature of other currency speculation and hedge fund operations undoubtedly exacerbated these phenomena with cumulative disastrous consequences (Jomo, 2006).

In the late 1980s, following a banking crisis, the Malaysian government responded by restricting borrowing from foreigners and introduced prudent regulations and supervision when nonperforming loans rose to 30% of total commercial bank loans (Jomo, 2006). Therefore, Malaysia never received emergency credit facilities from the IMF to cope with the crisis.

3.2.3 Reforms in Malaysia

Over the last 40 years, Malaysia has introduced a number of laws, regulations, non-legal requirements and codes of conduct. Today, there are three main acts that govern Malaysia's non-financial corporate sector activities: the Companies Act (CA) 1965, the Securities Industry Act (SIA) 1983 and the Securities Commission Act (SCA) 1993. The Bursa Malaysia Listing Requirements and the Policies and Guidelines on Issue/Offer of Securities Commission (SC) also play an important role in regulating directors, brokers, issuers and investors (Liew, 2007).

The Companies Act 1965 and Financial Reporting Act 1997 govern the disclosure of financial information. The Malaysian Accounting Standards Board (MASB) was established under the Financial Reporting Act 1997 to develop and issue accounting standards, whereas Financial Reporting Foundation (FRF) was created under the same act to oversee MASB's performance (Akhtaruddin et al., 2009). MASB obtains financial support and the initial views on accounting standards from the FRF. The enforcement of approved accounting standards is seen to reside with the Securities Commissions (SC), the Companies Commission of Malaysia (CCM) and Bank Negara Malaysia (BNM) (Susela, 2006).

In the 1980s, Malaysia adopted accounting standards that are consistent with those issued by the International Accounting Standards Committee (IASC). In addition, the approved accounting standards (Malaysian Accounting Standards (MAS)), which constitute the Generally Accepted Accounting Principles (GAAP) in Malaysia, cover issues that reflect particular features of the Malaysian business environment that the IASC does not deal with (Liew, 2007).

In 1993, one of the amendments by Bursa Malaysia concerning the listing requirements included provisions relating to audit committees. It endorsed the Cadbury Report's (CC, 1992) recommendations, wherein every listed company was required to set up an audit committee, as a sub-committee of the board of directors, which is independent of company management (Liew, 2007). At the same time, the revised CA 1965 states that directors are responsible for ensuring proper corporate governance and monitoring of their companies. In addition, the regulator also introduced the 1996 Directors Code of Ethics to govern the accountability of directors in Malaysia (Asian Development Bank, 2000).

According to many international bodies, Malaysia was never concerned about corporate governance practices until the Asian Financial Crisis in 1997/1998. The World Bank concludes that East Asian countries including Malaysia had got it basically right in the areas of effective governance, public institutions and economic management (World Bank, 1993). However, following the 1997/1998 financial crisis, this view on most East Asian Countries changed rapidly. A range of international agencies, including the International Monetary Fund (IMF), World Bank, Asian Development Bank (ADB), viewed corporate governance as the main cause of this crisis.

In the aftermath of the crisis, the Malaysian government was the key driver in fostering good corporate governance, in recognising the need to improve the corporate governance standards. For example, in November 1998, the country, partnered with the World Bank and the ADB, led the Asia-Pacific Economic Cooperation (APEC) forum to examine methods to improve corporate governance. Subsequently, in May 1999, the APEC finance ministers received a submission report entitled "Strengthening Corporate Governance in the APEC Region" (Liew, 2007). In order to improve market confidence, in 1998, the government implemented various measures, including the formation of a High Level Finance Committee on Corporate Governance (HLFC) and the Malaysian Institute of Corporate Governance (MICG). The government also clearly specified the functions of Bursa Malaysia and the Securities Commission (SC). They implemented policies to enhance corporate governance practices and financial disclosure.

3.2.3.1 Corporate Governance Reform

Many corporations collapsed after the crisis causing, among others, the Malaysian Institute of Accountants (MIA) to call for better corporate governance practices, greater accountability and enhanced transparency to protect against any future crisis. External audit, internal audit and audit committee were given further impetus after the economic downturn in Malaysia.

In March 1998, the Malaysian Institute of Corporate Governance (MICG) was incorporated under the CA 1965 in anticipation of the implementation of a corporate governance code in Malaysia. This new institution included the Federation of Public Listed Companies (FPLC), Malaysian Institute of Directors (MID), Malaysian Institute of Accountants (MIA), Malaysian Institute of Certified Public Accountants (MICPA) and Malaysian Association of the Institute of Chartered Secretaries and Administrators (MAICSA) as the founder members. The major role of the MICG is to run a "crusade of better governance" (Shanker,

1999) to improve the national corporate governance system. The main objectives include representing, expressing and giving effect to the opinions of MICG members on corporate governance issues relating to Malaysia. Others include promoting awareness of corporate governance principles among corporate participants, the investing corporations and the public. All these emphasise the importance of good governance to business viability and for enhancing long-term shareholder value (Liew, 2007).

The Malaysian government set up the High Level Finance Committee on Corporate Governance (HLFC) to establish a corporate governance framework and set best practices. The government and private sector formed a joint partnership in the HLFC to enhance the corporate governance standards in Malaysia. The HLFC issued its Report on Corporate Governance (HLFC, 1999) in February 1999 (Liew, 2007). It defines the term “corporate governance”, in a way that bore many similarities to the definitions provided by the OECD and other international bodies, but was supposedly adapted for the Malaysian context.

Another report concerning the Malaysian Code on Corporate Governance (HLFC, 2000) describes principles and best practices for good governance. It includes enhanced inspections and makes recommendations to strengthen the overall PLCs regulatory framework. It introduces good corporate governance self-regulatory mechanisms, education and training for corporate participants. All these principles and best practices are to prepare them for the implementation of the above recommendations. In October 2007, the Securities Commission revised the Code to further strengthen corporate governance practices in line with developments in the international and domestic capital markets (Liew, 2007). Key amendments were aimed to strengthen the board of directors and audit committees, and to ensure that they discharge their roles and responsibilities effectively.

The new listing requirements and the Malaysian Code on Corporate Governance (Revised, 2007) clearly spelt out the role of the audit committee in an effort to improve their effectiveness after the crisis. All public listed companies are required to establish an audit committee that consists of at least three directors of which the majority must be independent. The audit committee chairman should be an independent non-executive director (Securities Commission, 2007). All audit committee members should be financially literate with a minimum of one being a member of an accounting association or body. The Code highlights that an independent audit committee serves to support and implement the oversight function of the board effectively. The audit committee plays an important role in reviewing the preparation processes for financial data. As well as the independence of the company's external auditors, its internal controls, and a forum for dialogue with the internal and external auditors of the company.

The Malaysian Code on Corporate Governance (Revised, 2007) reinforces the existing role of external auditors in that they should report to shareholders independently in accordance with the statutory and professional requirements. Moreover, the Revised Code (2007) explicitly acknowledges the internal audit's role as an integral part of an effective corporate governance system, whereby they should undertake regular monitoring of key controls and procedures.

3.2.3.2 Bursa Malaysia's Requirements and Recommendations

Bursa Malaysia Listing Requirements 9.21 states that every listed company must have its own Web site, which publishes all announcements made to the Exchange. The listed companies must ensure that its Web site contains the e-mail address, contact person and number to enable the public to forward queries to the companies. Its Web site is current, informative and contains all information that may be relevant to the shareholders including analyst's briefings.

Best Practices in Corporate Disclosure (July 2004) (Bursa Malaysia, 2004) provides guidance and assistance to companies in complying with their disclosure obligations under the Bursa Securities Listing Requirements. However, compliance with these Best Practices is purely voluntary. It encourages companies to take advantage of current information technology to disseminate relevant information to the investing public. In accordance with the Best Practices 8.2, companies should establish a company Web site and post material information on the company Web site as soon as it is disclosed to the investing public. The management should ensure that prior to the posting of any material information on the company's Web site; there should be simultaneous disclosure of such information made in accordance with the Bursa Securities Listing Requirements. The company's Web site should be regularly updated, current and complete with the material information relevant to investors to ensure that the information posted is always accurate.

In June 2007, Bursa Malaysia launched a manual titled "Investor Relations (IR) Put Into Practice". The definition of IR is "that process through which a PLC organises and conducts itself in effective two-way communications with its stakeholders with the objective of accurately representing the company, achieving a fair market value for the company's securities and ultimately lowering its cost of capitals" (Bursa Malaysia, 2006, p.6). The publication is introduced for PLCs to take their responsibilities seriously and see the importance of consistently updating the company's development for their stakeholders. However, according to Bursa Malaysia CEO Datuk Yusli Mohd Yusoff, about 5%, or may be even less, of the total listed companies on the exchange engaged well with the stakeholders (Oh, 2009). Many companies pay little attention to communicating with shareholders after listing, apart from meeting the mandatory continuous disclosure requirements. Some companies think the objective of an IR programme is to maximise share prices, therefore, leading to inflated expectations as it is often accompanied by selective disclosure by companies (Oh, 2009).

3.2.3.3 Internet Reporting by the Malaysian Government

The Malaysian Government has taken steps through the introduction of the Multimedia Super Corridor (MSC) in 1996, to speed up the process in becoming a developed country. The Malaysian Government formed the Malaysian Civil Service Link (MCSL) and all government agencies were required to establish and maintain their Web sites from before the end of year 2000. There is research affirming that the Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) is the lead agency for the E-government flagship application, to acknowledge the importance of Internet reporting implementation by State Statutory Bodies (Ahmad et al., 2004). This research suggests that MAMPU should establish a department to be responsible in monitoring the Web sites of all government agencies in Malaysia.

In the following year, the government established the Multimedia Development Corporation (MDC) to oversee the implementation of the Multimedia Super Corridor (MSC) project. The seven flagship applications include e-government and e-commerce. The government re-named a ministry as the Ministry of Energy, Communications and Multimedia, which has the responsibility, among others, to develop the legal infrastructure for the Net economy. To date the relevant legislation that has been passed by the

Parliament includes the Digital Signature Act 1998 and the Communications and Multimedia Act 1998 (Ahmad et al., 2004).

Currently, there is no definitive pronouncement from the regulator as to whether the publication of financial information on the Internet, including financial statements, has to comply with the provision of the Companies Act 1965 and the Financial Reporting Act 1997. Therefore, it can be inferred that financial reporting on the Internet in Malaysia is perceived as largely unregulated (Hassan et al., 1999; Khadaroo, 2005). However, the regulators, such as the Securities Commission, Bank Negara Malaysia and Bursa Malaysia, are starting to monitor the Internet reporting and Web site activities. This is in line with the Malaysian Government's mission to ensure greater accountability and transparency in corporate reporting. Having considered the reforms carried out by the Malaysian Government, the next section reviews the Internet literature in Malaysia.

3.3 Internet Financial Reporting (IFR) in Malaysia

3.3.1 Descriptive Studies

Malaysian researchers focus on the study of the descriptive nature of Internet reporting practices. Nik Salleh and Mohamad (2000) survey a random sample of 100 companies that have linked pages to their home page on the Bursa Malaysia Web site. They assess the financial related reporting that is made available on line based on: (1) quality of information and timeliness of reporting, and (2) ease of access to meet user needs. They found that only 35% of companies disclose financial information on the Web sites. The companies use the Web sites for marketing of their products and services, on line transactions, recruitment, contacts and general corporate information dissemination. This shows a lack of awareness of the importance of Web sites to disseminate timely financial information.

Another study was conducted by Atan et al. (2000) on the top 50 Malaysian listed companies for the financial year ended 1999. They reveal that 48% of the companies presented financial information on the Web. They noted the high variability in Web disclosures, of which 62% had Web sites that are mainly active in promoting the business, 45% disclose detailed accounts, 10% disclose interim statements, 35% present quarterly statements and 52% show financial highlights. The study mainly describes the level of company financial information via the company Web.

In a related study by Jamaliah et al. (2001), they conducted a survey to examine mandatory and voluntary disclosure as practised by Malaysian companies. However, the researchers restricted the study to banks and finance companies, which resulted in only 63 companies in the final sample. The findings revealed that 57% of the companies have their own Web site but only 29% disclosed financial information. The study concludes that mandatory reporting disclosure is relatively higher than voluntary disclosure.

Mohamad et al. (2003) examined IFR practice by Malaysian listed companies, specifically, on the content or disclosure of Web financial information, Internet features adopted by companies to enhance Web reporting and users' support features. The preliminary investigation reveals that only 236 out of 868 (27%) listed companies had a Web site as at October 2002. The findings demonstrate that financial information disclosure on the Internet is fairly acceptable (81%) but that there is relatively low disclosure for non-financial information (51%) and updated information (34%). As for the adoption of

Internet technologies, 61% of the selected companies do not grab the opportunity to fully utilise Internet technology to further enhance the dissemination of financial information. The users' support features adopted is as low as 25%. Therefore, most of the companies only use the Internet to enhance the mean of disseminating financial information, rather than emphasise the quality of the information. These findings should be carefully interpreted as the sample companies were conveniently obtained from Bursa Malaysia homepage without any attempt to find the Web site using a search engine.

3.3.2 Determinants of Internet Financial Reporting (IFR)

Studies conducted by Malaysian researchers only focus on the association of firm determinants and limited ownership structures with the level of Internet disclosure (see Table 3.1). The Internet has been described as a new platform for distributing financial information (Hassan et al., 1999). It is a platform that exhibits distinctive and attractive features, which makes it an effective option when compared with the traditional platform. Hassan et al. (1999) investigate the perceptions of Malaysian chief financial officers (CFO) on the usefulness, vis-à-vis benefits and costs of the disclosure and reporting of financial information on the Internet. They used a mailed questionnaire to solicit the perceptions of the controllers, in which a response rate of 35.04% was achieved. The findings suggest that generally the benefits, to both the companies and the users of financial information, are perceived to be greater than the costs of adopting the Internet as another medium of distributing and disclosing corporate financial information. In addition, the study found that firm size and profitability are significant factors that motivate the decision to possess a corporate Web site for the dissemination of financial information. The industry type (consumer, industrial products and finance) has been found to significantly influence a company's decision whether or not to have a corporate Web site.

Ismail and Tayib (2000) explore the type and extent of information disclosure on company Web sites by listed companies in Malaysia. A total of 218 companies linked their Web sites to the Bursa Malaysia Web site. They found that only 11.5% of the companies disclosed their full annual reports on their Web sites. The companies tend to disclose corporate information and other non-financial information received a lower ranking (the chairman's statement and directors' report). Further investigation on financial disclosure shows that it is related to industry and listing status. Larger finance and trust companies, and industrial product companies are more likely to disclose annual reports on the company Web sites. The study only focused on the companies having their Web sites directly linked to the Bursa Malaysia homepages. They only included two variables, namely the industry type and listing status to explain the financial disclosure level on the company Web sites.

Malaysian regulators are increasingly vigilant in monitoring the quality and variability of the Internet disclosure. They want to ensure that accounting data remains relevant, reliable and understandable to the information users. As argued by Gan and Susela (2006), the new economic activities bring new challenges. The accountants should continually improve themselves with new information technology and financial skills in order to meet future challenges. Their study provides empirical evidence concerning the association between the IFR practices by listed companies and firm characteristics such as size, financial leverage, audit firm type and number of shareholders. They found that the Internet financial information varied widely within a sample of 271 Malaysian listed companies. The level of the disclosure is positively significantly associated to the number of shareholders and firm size, but negatively related to proportion of assets-in-place. The study can adopt a longitudinal approach, which helps to explain the reasons for the results.

The study by Abdul Hamid et al. (2004) revealed that industry type and company size is positively significantly related to the existence of investor information in the corporate Web page. The result confirms that Malaysian companies tend to present traditional communication as required by law, and may not communicate with stakeholders via the Internet. Furthermore, Malaysian companies rely on traditional investor relations (IR) dissemination channels to communicate with fund managers and institutional investors. They are usually well-informed about how these firms operate. Due to the dynamic nature of the Internet, new Web sites are constantly being added and their information is being updated regularly by the companies. The results only represent a snapshot of Malaysian companies using the Internet for IR activities at a certain period of time.

Haniffa (2004) examined whether the differences in IFR policies among 100 Malaysian firms might be due to a firm's specific characteristics. The regression results of a full sample firms show that firm size, growth, leverage, share concentrations and foreign share ownership directly influenced the adoption of IFR. The regression results on the partition sample (excluding size factor) indicate that only the leverage factor remains significant for top 50 firms, and shareholders concentration factor for IFR practices of the bottom 50 firms. However, the sample studied is limited to only 100 listed companies. The extent of the dependent variable only measures the required information in the annual report.

Prior studies focused strongly on the economic aspects of the determinants of IFR. Alarussi and Selamat (2007) investigated whether agency theory can explain the voluntary financial and environmental disclosure through the company Web sites. They found that firm size, level of technology and CEO ethnicity significantly affected the level of Internet financial and environmental disclosure. However, the study only considered influences of firms' characteristics variables on Internet financial and environmental disclosure.

3.3.3 Perceptions of Preparers

The most recent study by Khan and Ismail (2009) examined the factors that influence Malaysian companies to engage in IFR. This paper solicited the perceptions of preparers of financial information via a mailed questionnaire. Preliminary findings suggest three factors that firms perceive as important: (1) enhance corporate image, (2) company teller with the technology development, and (3) competitors in the industry. However, 'the need to keep information updated', 'required expertise from the company' and 'concern over security of information' are the three main factors that inhibit companies from adopting IFR. The study suggest that further studies could adopt other approaches, such as interviewing companies and preparers to gain an in-depth understanding concerning the factors influencing Malaysian companies to engage in IFR.

3.3.4 Internet Reporting Practices Comparison between Countries

There is another study that compared the Internet reporting practices of listed companies in Malaysia and Singapore (Khadaroo, 2005). The study examined the Web technology implications on business reporting and the challenges faced by accounting standard-setting bodies. As argued by the author, Singapore listed companies have greater Web presence and make better use of the Internet potential than Malaysian listed companies. However, the study sample was limited to the listed companies of both countries. Having considered the Malaysian Internet literature, the next section reviews corporate governance factors, ownership structures and other disclosure studies in Malaysia.

3.4 Corporate Governance and Other Disclosure Studies

Many accounting researchers argue that corporate governance may exert corporate transparency (Wang, 2006; Karamanou and Vafeas, 2005; Ahmed and Duellman, 2007; Wan-Hussin, 2009). Ownership structures and board composition are the two most recent internal corporate governance characteristics to be extensively examined by the accounting researchers. The influences of these characteristics remain unsettled research interest areas.

Environmental factors affect corporate accounting practices (Haniffa and Cooke, 2002). The study finds that CEO duality and family members dominating board are negatively significantly related to the extent of voluntary disclosure. A subsequent study by the same researchers (Haniffa and Cooke, 2005) found that corporate social disclosure is positively significantly related to Malay directors, multiple directors and foreign ownership. However, executive directors are negatively significantly related to corporate social disclosure. The researchers argue that Malaysian regulators need to address these issues urgently in the policy formulation for continuous corporate governance reforms.

According to Ghazali and Weetman (2006), past studies on companies from emerging economies before and during the 1997 financial crisis have found a significant relationship between ownership pattern and voluntary disclosure. The study found that director ownership is negatively significantly related to the level of voluntary disclosure. However, the study only examined one form of voluntary disclosure and the researchers assumed that all disclosures were disseminated through public information channels.

The issue of reporting timeliness is important as it is related to corporate transparency. A study by Abdullah (2006) shows that board independence and separation of chairman and CEO roles are significantly related to the timeliness of corporate financial reports in Malaysia. Other equally important corporate governance variables such as ownership structures and independence of the nominating committee could be considered as well.

The stability of the ecosystem is adversely affected by environmental problems (Buniamin et al., 2008). The study on 243 Malaysian listed companies shows that only board size is positively significantly related to environmental information. Additionally, the study found that company size and environmental sensitivity are positively significantly related to the existence of environmental reporting. Future research may adopt a longitudinal study to trace the environmental reporting practices on a yearly basis.

Using the enhanced segment disclosures as a proxy for corporate transparency for Malaysian companies in 2001/2002, Wan-Hussin (2009) found that firms with a higher percentage of affiliated independent directors are more likely to disclose greater segment reporting. The study may consider the disclosure of secondary segment items. However, the result should be treated with caution, as the early adopters sample is quite small.

3.5 Analysis of the Literature

The above Web-based studies mainly focused on the descriptive nature of Internet reporting and examined very limited factors (mainly firms' characteristics and limited ownership structures) that affected the Internet reporting. Other disclosure studies found that corporate governance factors were significantly related to the reporting practices. Therefore, it is important to consider corporate governance variables in voluntary Internet disclosure studies. Indeed, Gul and Leung (2004) argue that failure to consider corporate governance variables in prior disclosure studies might result in mixed findings.

As discussed in Section 3.2.3, the Malaysian Government has been the key driver in fostering good corporate governance, in recognising the need to improve the corporate governance standards and disclosure transparency. Therefore, in the current regulatory environment, corporate governance mechanisms may play a key role in defining the transparency level of a company in disseminating information. Logically, companies with stronger governance structures should be more responsive to adhering to the spirit of these new regulatory requirements and recommendations. This study seeks to determine whether the corporate governance mechanisms have any significant influence on the level of transparency via the Internet. Additionally, prior Internet studies in Malaysia only included a few independent variables such as firms' characteristics, share concentration and CEO characteristics in their studies (see Table 3.1). Therefore, this study extends the research in linking the corporate governance factors to the level of IFR of Malaysian listed companies. This study includes the corporate governance mechanisms recommended by MCCG (Revised, 2007), such as effective board compositions and audit committee characteristics, as the determinants of IFR.

The above Web-based studies generally reviewed a very limited number of content items ranging from a minimum of twelve (12) to a maximum of fifty-eight (58). This study adapted a richer and more comprehensive disclosures/attributes index from FASB (2000) to evaluate the comprehensiveness of information via the Internet by Malaysian listed companies. Appendix A presents the disclosure score sheet used in this study.

This study includes the variable "Internet visibility" to capture the importance of a company on the Net. Indeed, Serrano-Cinca et al. (2007) argue that Internet visibility is becoming an important intangible asset for companies following the rapid development of electronic transactions. When companies make a strategic decision to maintain a strong Internet presence, they will gain greater visibility, as well as disseminate more information and increase disclosure. During this Internet age, it can be expected that investors will presume that companies with a high Internet visibility will disseminate better information and more disclosure.

Bursa Malaysia has encouraged all listed companies to disclose investor-related information on their own Web sites, with electronic forms of information exchange becoming increasingly available (Bursa Malaysia, 2004; 2006). However, not all listed companies engage in such voluntary disclosure. Through this study, the researcher intends to identify the extent of Internet financial disclosure by Malaysian listed companies.

A summary of the prior studies on IFR for Malaysian companies is presented in Table 3.1. The independent variables mainly include firms' characteristics, ownership concentration and CEO characteristics.

Table 3.1 Local Studies' Internet Financial Reporting and Determinants

Authors	Date of Data Collection	Sample	No of Checklist Items	Dependent Variables	Significant Independent Variables
Ismail and Tayib (1999)	December 1999	237 listed companies	21	-Presence of Web site -Financial disclosure	Listing status (+) Industry type (+)
Gan and Susela (2006)	2001	Top 100 KLSE companies	Not available	-Presence of Web site -Financial disclosure	Firm size (+) Number of shareholders (+) Assets in place (-)
Mohamad et al. (2003)	October to November 2002	127 listed companies	41	-Presence of Web site -Financial disclosure	
Abdul Hamid, Salleh and Saad (2004)	2003	72 listed companies	12	-Presence of Web site -Investor-related materials	Size (+) Industry type (+)
Hanifa (2004)	November to December 2002	Top 100 KLSE companies	Not available	-Presence of Web site -Financial disclosure	Leverage (+) Size (+) Growth (+) Share concentration (+) Foreign share ownership (+)
Abdul Hamid (2005)	3 months	70 listed companies	46	-Presence of Web site -Investor-related materials	

Table 3.1 Local Studies' Internet Financial Reporting and Determinants, continued

Authors	Date of Data Collection	Sample	No of Checklist Items	Dependent Variables	Significant Independent Variables
Khadaroo (2005)	February 2003	100 Malaysian companies and 45 Singapore companies	41	-Presence of Web site - Investor-related materials	
Alarussi and Selamat (2007)	2005	201 listed companies	58	-Presence of Web site -Financial and Environmental disclosure	Existence of dominant personalities (-) Level of technology (+) Ethnic of CEO (+) Firm size (+)

3.6 Conclusion

This chapter begins with a description of relationship-based capitalism in Malaysia. Following the Asian financial crisis 1997, the Malaysian Government had taken many measures to increase the frequency of corporate disclosures and greater transparency of information. Hence, there is a need to study the extent of IFR by Malaysian listed companies. This chapter provides a literature review on the Web reporting of Malaysian companies. Indeed, prior studies are mainly descriptive in nature and only examined the firms' characteristics and ownership concentration in relation to the level of IFR. This study extends the research in linking the corporate governance factors such as effective board compositions and audit committee characteristics (MCCG Revised, 2007), as well as the variable "Internet visibility" to the level of IFR of Malaysian listed companies. The influence of audit committee characteristics and Internet visibility on IFR is new variables to Malaysian IFR studies. The next chapter explores theories to explain Internet reporting.