CHAPTER 7: DISCUSSION OF INTERVIEW RESULTS: PHASE 2

7.1 Introduction

This chapter reports the results of the second phase of the study, the in-depth semi-structured interviews with ten (10) senior managers of the sample companies. It begins with a brief discussion of the respondents' backgrounds in Section 7.2. Section 7.3 discusses the results of the interviews. This section is divided into 3 sub-sections – Section 7.3.1 presents the perception and awareness of the managers; and Section 7.3.2 discusses the individual firm motives. The interview data obtained from each respondent are analysed to determine the themes and summarised into tables. Views on the influence of corporate governance mechanisms and ownership structures on IFR are presented in Section 7.3.3. The disclosure theories are used in the data interpretation process (Section 7.4). Lastly, IFR issues highlighted by the respondents are discussed in Section 7.5.

7.2 Profile of the Respondents

The researcher used search engines, e.g. Yahoo and Google to find Web pages of the Top 120 sample companies, of which only 17 companies included the investor relations contact on the Internet. Then, the researcher made a telephone call to arrange an appointment with these investor relations personnel. They confirmed the appointment after a few follow up calls; finally, the researcher interviewed officials from ten (10) companies. Most of the respondents declined an appointment due to their busy schedule while others wanted to keep a low profile on this issue. Table 7.1 lists the details of the companies and the persons interviewed.

Respondent C1 is an accountant by profession and was attached to the accounting and auditing industry for 8 years before joining a company in 1988. He was initially attached to the Finance Division in the Head Office, and transferred to the group company in Hong Kong in 1990. He returned to Head Office in 1994 and was appointed Senior General Manager in 2001 and Chief Operating Officer in 2008. His portfolio includes supervision of the company's Banking Operations, Finance, Property and Information Technology Divisions.

Respondent C2 has 22 years of experience in the finance and accounting profession. She is involved in tax planning, auditing, financial management and project management. She holds a Master of Business Administration (MBA) from the University Of Lincoln (U.K.).

Respondent C3 is the Head of Investor, Finance. She has more than 14 years of managerial experience. Her responsibilities in the company include public release to Bursa, placing relevant information on the company Web site, and meeting with analysts, fund manager and shareholders. She also holds analyst teleconferences and media conferences, and attends road shows to update investors on the company's outlook.

Respondent C4 is the Chief Executive Officer of a company. He has more than 10 years of experience in investor relations and corporate finance.

Respondent C5 is the Investor Relations Manager of a company. He has more than 5 years of experience in finance and investor relations.

Respondent C6 is the independent director of a company for 9 years. He has more than 15 years experience at the managerial level. His area of expertise and experience includes accounting, finance and corporate management. He holds a Master of Business Administration (MBA) from the University of Malaya. He is also a member of the Malaysian Institute of Accountants.

Respondent C7 is the Head of Group Investor Relations. He has more than 10 years experience at the managerial level. His area of expertise and experience includes accounting, auditing, finance, strategic planning, performance management and investor relations.

Respondent C8 is the Head, Investor Relations from CEO's office. She has 16 years experience at the managerial level. Her portfolio includes investor relations.

Respondent C9 is the Senior Manager of Corporate Planning. He has 6 to 7 years experience at the managerial level. His portfolio includes accounting, corporate finance and treasury.

Respondent C10 is the Assistant Manager of Corporate Planning. He has 5 years experience at the managerial level. His area of expertise and experience includes audit, finance and business development.

Table 7.1 Details of the Respondents

Company	Industry	Designation	Expertise and Experience
C1	Finance	Chief Operating Officer	Investor relations, accountant, senior general management
C2	Construction/property	Finance Manager	Tax, audit, group accounts and business plan
C3	Trading/Services	Head of Investor Relations	Internet-based corporate reporting and liaise with investors
C4	Finance	Chief Executive Officer	Corporate finance and investor relations
C5	Construction/property	Investor Relations Manager	Finance and investor relations
C6	Plantation	Independent director	Accounting, finance and corporate management
C7	Finance	Head Group Investor Relations	Accounting, auditing, finance, strategic planning, performance management and investor relations
C8	Finance	Head of Investor Relations from CEO's office	Investor Relations
C9	Plantation	Corporate Planning Senior Manager	Accounting, corporate finance and treasury
C10	Plantation	Assistant Manager Corporate Planning	Audit, finance and business development

The selection of the right person to be interviewed is very important, as this will reflect the responses given during the interview. The person selected is expected to be involved in financial reporting via the Internet. They are also expected to know their organisation's operations in a broad perspective and may be considered as capable of addressing questions relating to the examination of Internet reporting perceptions. The researcher had also briefed the interviewee on the importance of their response to the study. This study assumes that the response to each question represents the idea of the company in order to find the real motivations of why companies engage in IFR.

The researcher had very successful meetings despite many obstacles in getting the interviews done. Overall, the reaction of the interviewees was encouraging. They seemed to answer all the interview questions addressed to them freely. This reflects their willingness to be transparent about their company's experience on IFR issues.

7.3 Results of Interview

The aim of the interview is to obtain the preparers' view on the current IFR practices of their companies. As discussed in Chapter 5 on methodology (Section 5.4.4), interviews are an excellent method and powerful technique to understand individual perception and views on IFR. The researcher carried out the fieldwork between May 2009 and August 2009. Chapter 5 (Section 5.4.4) discussed the details of the interviews administration.

7.3.1 Open Questions: Perceptions on Internet Reporting

This section is mainly narrative. It attempts to get into the thoughts of the respondents, in order to understand the real meaning of what they were trying to impart. In order to make the discussion meaningful, the discussion proceeds from two different aspects of awareness: their understanding on Internet reporting and the perceived benefits of Internet reporting. This is the first and most important question posed to the interviewees during the interview sessions. The objective is mainly to get an overall idea of the interviewees' understanding on the Internet reporting issues. The data is then cross-analysed with the respondent's profile.

All the managers interviewed were highly aware of Internet reporting. All the respondents agreed that:

> Internet reporting is just another channel of communication to facilitate continuous disclosure and it is a way forward.

All the respondents highlighted the importance of having such activities. For example C1, C2 and C7 said:

> The company should be transparent, responsible and accountable to shareholders through release of timely company information via the Internet. The reporting must be relevant and include all necessary documents.

Another respondent admitted that:

> I think certain size and background of company may be stronger in terms of Internet disclosure, which leads to variation in quality of reporting via the Internet. (C3)

The above data shows that the awareness of Internet reporting is quite high among the respondents.

Most of the respondents agreed that this technology can reach more potential users and they can access the companies' financial information easily via the Internet. It also enhances the speed of reporting and disclosure can be shortened. Presentation of information is under the companies' full control at any point of time.

In locating some reasoning as to why the companies disclose via the Internet, further analysis was done on the respondents' background. As discussed in Section 7.2, most of the respondent's interviewed were from the Investor Relations Department. For example, respondents from C1, C3, C4, C5, C7 and C8 were managers or top managers holding a post in the Investor Relations Department. The process of preparing public reporting of operating and financial data via the World Wide Web seems to fall under the responsibility of the investor relations department. Of course, in the preparation of the accounting or financial report, the finance or accounts department is fully responsible. The public reporting documents are then sent to the investor relations to include information to be released to investors. For example, respondents clearly stated the process of preparing investor relations materials:

> Our company fully complies with all disclosure requirements set by regulators. (C1 and C7)

> Our reporting is based on the basic requirements of Bursa. (C2, C5 and C6)

When setting up a corporate information Web site, the most commonly consulted information source appears to be the competitors' Web sites. It is possible, therefore, for the companies to imitate the best features of the innovators for their ongoing improvement on the companies Web sites (C3, C5, C6 and C8). Respondents said:

> We refer to the overseas Web sites to get new ideas, especially from those agencies' award winners, as they are more informative, comprehensive and well-designed.

> We only compare with the best companies irrespective of its size and where it is located. (C7)

In most cases, the decision to make information available in the public domain has already been decided by company officers, notably preliminary announcements, quarterly reports and annual reports. According to several interviewees, regulation can put a brake on further developments. For example, in order to avoid misleading investors, the dissemination of forecast information has to be treated with a great deal of caution.

7.3.2 Theme Guided Questions: Motivations

A detailed matrix table of the data was developed based on the simplified coded data identified from the transcripts. The description of the data display is similar to Huberman and Miles (2002) who define display as a compressed, organised information collection that allows conclusion drawing and action. To understand what is happening one needs to refer to the data display (Huberman and Miles, 2002), and to see the patterns, regularities, and the causal relationship. Subsequently, the disclosure theories are used to interpret the evidence because the core issues emanating from the evidence are encapsulated in this perspective. The researcher listed the simplified coded motivation first before constructing the matrix table. The motivations identified from the interview data are as follows:

M1 –To be more transparent in disseminating company information. They want to ensure that the public have good access to company information. It helps investors to make good investment decisions and convince potential investors that the company is a good stock in which to invest.

M2 – Promoting their products and services to create a good brand name in the industry.

M3 – A strong believer of good corporate governance best practices.

M4 – To compete for finance.

M5 – To set a good example for other listed companies to follow.

M6 – To project a good corporate image.

M7 – Wanting to be known by all, and not just an item on the Stock Exchange.

The above information is distilled after several rounds of reiteration. The motivations with the same meaning are grouped into seven (7) core codes. The data is then cross-analysed with the company profile. The matrix table is then developed as shown in Table 7.2.

In order to ensure that no data is missed out and to ensure that analysis is completed, the researcher listened to all the respondents' recorded interviews again and revisited the transcripts several times.

Table 7.2 Code Matrix Display – Motivation of Internet Reporting

Motivation of Interviewees	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	Total n=10
M1 – To be more transparent	√		√		√	√	√	√	√	√	8
M2 – Promoting their products and services to create a good brand name in the industry	√	√				√	√				4
M3 – Strong believer of good corporate governance best practices	√		√	√	√	√					5
M4 - To compete for finance				√					√		2
M5 – To set a good example for other listed companies to follow				√				√			2
M6 – To project a good corporate image						√					1
M7 – Wanting to be known by all, and not just an item on the Stock Exchange									√	√	2

n=number of respondents

7.3.3 Theme Guided Questions: Influences

The researcher asked the respondents the influences of IFR under the themes guided questions. Table 7.3 shows the results of these questions. All respondents claimed that ownership structure influenced IFR, and seven (7) respondents agreed that industry members and firm size influenced such reporting practice. Phase 1 of this study also found that industry and firm size is positively significantly associated with Internet visibility (Section 6.5.5 and 6.5.6.).

Table 7.3 Influences of Firm Characteristics (Control Variables)

	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	n=10
Industry members	√	√	√	√	√	√		√			7
Firm size		√	√		√	√		√	√	√	7
Financial performance		√		√				√	√	√	5
Beta (systematic risk)					√				√	√	3
Auditor type (Big 4 or non-Big 4)						√					1
Ownership structure	√	√	√	√	√	√	√	√	√	√	10
Board governance structure		√				√		√	√	√	5

n=number of respondents

The researcher asked respondents to indicate to what extent they disagreed or agreed with the influences of ownership and corporate governance mechanism on a Likert-scale of 1 (strongly disagree) to 7 (strongly agree). Responses are summarised and analysed in Tables 7.4 and 7.5.

As shown in Table 7.4, 90% of the respondents agreed that family-owned (10); institutional-owned (8); government-owned (10); foreign-owned (9) and director-owned (8) influenced the IFR practice. All the respondents said that the family-controlled firms are not likely to disclose voluntary information above the mandatory requirements because there is a low demand for public disclosure. Phase 1 of this study found that director ownership and institutional ownership is negatively significantly associated with Internet disclosure (Section 6.5.4). According to the respondents, larger equity institutional investors will monitor company management and policies fairly, and they have the voting power to pressure the self-serving management. As for foreign-owned firms, due to the geographical separation between management and foreign owners, the demand for disclosure is also greater.

Table 7.4 Influences of Ownership

Ownership	n	**Level of Agreement**						
		1	2	3	4	5	6	7
Family-owned	10	0	0	0	0	1	8	1
Institutional-owned	10	0	1	0	1	0	6	2
Government-owned	10	0	0	0	0	2	6	2
Foreign-owned	10	0	0	0	1	0	7	2
Director-owned	10	0	0	0	2	1	5	2
			1 (2%)		4 (8%)		45 (90%)	

n=number of responses
Level of agreement on a scale of:
1=strongly disagree 2=disagree 3=slightly disagree 4=neutral 5=slightly agree 6=agree 7=strongly agree

The results concerning the influence of corporate governance mechanism on IFR varied widely. This shows that respondents were largely unsure about its influence, with 34% of respondents agreeing that the corporate governance mechanism influences IFR and 49% of the respondents indicating that the corporate governance mechanism does not influence IFR. Four (4) respondents said that audit committee size was neutral to IFR practice and three (3) respondents had the opinion that audit committee meeting frequency was also neutral to IFR practice. Four (4) respondents disagreeing that the audit committee financial expert influences IFR, while five (5) respondents agreeing that audit committee financial expert influences IFR. Phase 1 of this study found mixed findings on the association between audit committee financial expert and Internet visibility and disclosure (Section 6.5.3).

Table 7.5 Influences of Corporate Governance Mechanism

Corporate Governance	n	Level of Agreement						
		1	2	3	4	5	6	7
Board size	10	1	7	1	1	0	0	0
Non-executive director	10	1	2	1	2	2	2	0
Independent director	10	1	2	1	0	2	3	1
CEO Duality	10	1	1	3	2	2	1	0
Director - Accounting and Finance	10	1	1	2	1	0	4	1
Family director	10	1	2	3	2	0	1	1
Multiple directorship	10	1	2	1	1	0	4	1
Audit committee (AC) size	10	1	3	1	4	0	1	0
AC Finance Expert	10	1	2	1	1	0	4	1
AC meeting frequency	10	1	2	1	3	0	2	1
			49 (49%)		17 (17%)		34 (34%)	

n=number of respondents
Level of agreement on a scale of:
1=strongly disagree 2=disagree 3=slightly disagree 4=neutral 5=slightly agree
6=agree 7=strongly agree

7.4 Applicability of Disclosure Theories

As discussed in Chapter 4, several theories, such as positive accounting theories and institutional theory, determined the accounting choice and disclosure.

The interview data reveals that the respondents place high regard on the environmental actors as argued by institutional theory. For example, C4 states that:

> For XBRL implementation, U.S. companies converted data from June 2009 onward. Japan presented their annual report 2008 in XBRL format. Our neighbouring country, Singapore companies incorporated after 1/11/2007 are required to present annual return in XBRL format, 29 Thai companies participate in a pilot project to develop reporting in XBRL. Malaysia companies are not doing it yet. Eventually, we will follow others.

C2's explanation for their reporting format:

> We benchmark ourselves against other exchanges such as Australia, New York, Singapore and Hong Kong. We also refer to award winners and foreign companies.

From the institutional perspective, external factors appear to assert the normative and coercive pressure to institutionalise C4 and C2. C4 further mentioned that the majority of their partners come from overseas companies where the IFR in XBRL format is very significant and common. The above data also confirms that C4 and C2 are giving higher priority to the demands of relevant actors. They see the importance of sharing the same feeling towards IFR. In order to enhance the companies' reputation they chose to adopt this practice to gain greater legitimacy. Clearly, C4's incentive to adopt IFR in XBRL format appears to draw on this notion.

Political costs theory can explain the relationship between industry and disclosure. Indeed, according to Watt and Zimmerman (1990) industry member being related to size is associated with political costs. Industry type may also change the proprietary costs. Signalling theory argues that companies in the same industry are more likely to have the same disclosure level, in order to gain positive market appreciation. According to respondent C1:

> Our company takes into account what the competitors are doing for competitive position and assessment.

The relationship between size and disclosure can be explained from several theoretical arguments. Watts and Zimmerman (1990) argue that higher political costs in larger companies resulted in them having a higher disclosure level to reduce political costs and improve market confidence. In addition, larger companies are likely to have more advanced information systems; therefore, additional disclosure will supposedly cost less in comparison with the smaller companies. At the same time, as company size increases, the proprietary costs for competitive advantages of additional disclosure are smaller (Verrecchia, 1983). Respondents C2 and C3 said:

> Bigger companies may have better data presentation in order to convince that the company is doing well, to gain confidence from public and

> investors. They have greater resources to report via the Internet. (C2)
>
> Bigger firms tend to have their own Web sites. Smaller companies may not have a dedicated investor relation team to take care of such function, because they may not have sufficient resources and budget. There are some smaller companies that cannot even differentiate between Investor Relations, Corporate Communication and Public Relations. (C3)

The greater proportion of equity capital structure, the higher the level of information expected by shareholders, thus, incurring higher monitoring costs. The agency cost reduction has the same argument. However, the same problem exists regarding inside versus outside equity. When there is a larger equity from inside, additional disclosure becomes unimportant since the internal owners have greater access to company information. Respondent C1 stressed that:

> Family owned firms require a lower level of disclosure. As for institutional owned, they demand a higher level of disclosure, otherwise, the institutional investors could dispose of their investments if they are unhappy with the company's disclosure!

Another respondent C2 argued that:

> Institutional owned tends to be more transparent in order to attract investment and gain confidence from investors. Family/director owned tends to be more secretive, i.e. they may "hide" information from the public to protect cronies such as related-party transactions.

7.5 Issues of Internet Reporting

The researcher asked the respondents for any issues pertaining to Internet reporting. A number of issues have been sub-grouped for easy comparison.

7.5.1 Regulation of reporting

Although there was a general agreement that IFR will, at the very least, be permitted, there were contrasting views on the extent to which regulations will become necessary. Some respondents expressed a static view, while others adopted a dynamic perspective.

Six (6) respondents expected the need for new regulations as the Internet represents a radical change in the commercial process. However, all thought it is important that whatever controls are developed and used, they should not hinder the freedom of a company's management to publish information on the Internet that they think is useful. Others believed that no regulation would be necessary; because of an implied assumption that a company will only place audited or reviewed information on the Web. Furthermore, the exact reproduction of the hard copy on the Web will ensure that no legal issues will arise.

7.5.2 Security of the Web site

Web site security is the main concern of all the respondents. It may not be easy to control the access of the Web site or its underlying database. Needless to say, hackers and hostile intruders can and do find loopholes in the company's security net and change the data without the company's knowledge. For example, C1, C2, C5 and C6 said that:

> There is a potential risk by irresponsible hackers to alter the content of information on company Web pages.

Even if the security is adequately provided, the chances of fraudulent information being communicated through similar technologies and chat rooms still exist and the company can be adversely affected by such information.

7.5.3 Timeliness of Reporting

The Internet improves the financial information availability within companies, but needs to increase the frequency of reporting from annually or quarterly to monthly, weekly, daily or even almost instant annual reports. To achieve a high frequency of reporting, the Internet facility is a pre-requisite. For example, after the company released the announcements, such information should be provided instantly or else it will lose value fast, as the delivery to users is too late relative to the duration it covers. A major change in most accounting systems is required, because more frequent reporting for events, such as updates of estimates, judgements and market prices would need a real-time entry. The respondents highlighted:

> My concern is we need to do a lot of regular updates to ensure timely information is posted via our Web site. (C3)

> Continuous disclosure requires constant efforts to update and change the Web's information. (C5)

> Omission of material transactions caused by late release by authorised personnel may occur. (C6)

7.5.4 eXtensible Business Reporting Language (XBRL)

XBRL International promulgates a computer language using an emerging technology. It is a global consortium of over 200 technology, accounting and financial services. Within XBRL, a predefined and unique data tag is assigned to each piece of financial data. These data tags act as the barcodes to identify the content and structure of information. The XBRL proponents claim to have the ability to affect users' financial information acquisition and processing, as their decisions and judgements are based on its output.

The main facility offered by XBRL is its ability to acquire and integrate the financial information from within a company's financial statements and code it. For users who are using this software application, the coded financial statements will facilitate the extraction process and simultaneously show the coded information for all identical annual reports and footnotes. Many developed countries are adopting XBRL coded financial statements in view of the above benefit. These countries include Canada, Germany, Hong Kong, Japan, Singapore, the U.K. and U.S., as well as the IASB (XBRL News, 2002). However, according to C4:

> Since 2008, our neighbouring countries such as Thailand and Singapore began to instruct their listed companies to use XBRL coded financial statement via the Internet. Many listed companies in Malaysia are yet to adopt IFR on their corporate Web sites; some of them are struggling to set up a company Web site!

According to Dull et al. (2003), through the professional bodies, software companies and accounting firms' support, XBRL is becoming an emerging financial reporting standard. Malaysian regulatory agencies and/or the stock exchange should seriously consider encouraging the listed companies to adopt XBRL in view of the above benefits and adoption by the neighbouring countries.

7.5.5 Internet Reporting is "Individual Driven"

Company personnel to varying degrees and seniority can carry out the Investor relations function, but involvement by directors is generally considered to be desirable in the managing and executing of the activities.

According to the respondents, the majority of the board of directors clearly accepted the principal responsibilities of communication. The influence of one senior member may affect the company decision to set up or improve an existing Web site. Usually, a senior executive is responsible for the Web site project, together with substantial involvement from the directors. C1, C8, C9 and C10 stressed,

> The Board is the key driver to greater transparency beyond the mandatory disclosure compliance.

The interview results suggest that it is generally a high level decision with close participation from one or more directors to improve greater transparency of information.

7.6 Conclusion

This chapter reports the findings of the second phase of this study, which are the perceptions and views of the preparer companies. Relatively, all the respondents interviewed provided good cooperation and the insights gained from the interviews are very valuable for this study. It provides a clear picture concerning the manager's perception, awareness and understanding on the concept of IFR. This study identifies the emergent pattern and discusses the influences of ownership structures and corporate governance mechanisms on IFR. Finally, this chapter reports the findings on the views of preparers regarding issues relating to this newly emerging practice. Among the more significant issues were security of the Web site, timeliness of reporting and adoption of XBRL. Having considered the preparers' views on IFR in the second phase of the study, a summary and conclusions for both phases of this study are presented in the next chapter.