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INTERNET FINANCIAL REPORTING PRACTICES IN INDIA: A STUDY OF SELECTED INDIAN COMPANIES

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Abstract

Corporate disclosure plays an important role in the fulfilment of financial accounting objectives. Companies have started the use of the internet, to disclose or communicate all necessary information, to inform present and potential investors and other stakeholders, with regard to company information. The paper attempts to investigate the level of internet financial reporting practices of Indian companies, towards disclosure of financial and non-financial information, on their web sites. The paper also studies the influence of company characteristics on their disclosure score. The result shows that there is positive association between company size and profitability, with internet financial reporting practices of the companies. It is also observed that there is great deal of variation in content and presentation of the information, disclosed on the web sites and terminology used for describing the information. The paper reveals that no consistent pattern could be used, to access multiple websites, by different users.

Keywords: *Internet financial reporting index, Information disclosure, Size, Profitability.*

JEL Code: *M40*

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1. Introduction

Corporate disclosure provides an elaboration or explanation of a company's financial position and operating results. It is a process through which a business enterprise disseminates quantitative (both financial and non-financial) and qualitative information to the stakeholders, for the purpose of their decision making. Companies use various traditional instruments like an annual report, quarterly report, prospectus, etc. to disseminate business information to various stakeholders. Now disclosure has been extended to websites. Internet Financial Reporting (IFR) enables companies to disclose, both the traditional annual reports, with additional financial and non-financial information, in multiple formats to a wider audience and it has attracted much research

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attention. Internet Financial Reporting (IFR) allows firms to communicate information to unidentifiable consumers, while the paper-based annual report which communicates information to a selected group. A company is said to carry out internet financial reporting if the company has used its website, to report comprehensive financial statement, which includes footnotes and audit report, link to its annual report anywhere on the internet and the online filing portal by securities regulators like Ministry of Corporate Affairs (MCA 21) in India. Two dimensions of internet financial reporting are content and presentation dimension, which determine the extent of internet financial reporting. The content dimension reports the availability of financial information and contents of annual reports, in addition to the availability of current share prices and share performance. Presentation dimension deals with the internet issues of financial reporting or how information is delivered by using advanced features like hyperlinks, mailing lists and downloading of data, etc. Firms use the Internet to increase the timeliness of their financial reporting. Timeliness, in the context of Internet financial reporting, involves disclosing information before it loses its capacity to influence decisions **(FASB, 1980)** as well as disseminating information in a manner that allows faster acquisition and use of that information. The term, Internet financial reporting (also known as corporate disclosure through web or online reporting), has been defined by different authors in different ways. According to Financial Accounting Standard Board **(FASB, 2000)**, "Internet financial reporting can be classified as IFR-content and IFR-presentation. IFR – content means disclosure of a complete version of the hard copy annual report in the website while IFR – presentation means disclosure of those equivalent of the print format of the annual report to enhancements, not available in the paper paradigm (i.e. graphics, interactivity, etc.)". Similar views have been expressed by **Debreceny et al. (2002)**, who defines it as a dissemination of corporate information, using Internet technologies, such as World Wide Web (WWW). IFR can be characterized as (i) solely another distribution channel for existing printed material, (ii) having the ability to interact with internet technologies such as Web browsers and search engine or (iii) providing enhanced or expanded information that could not be cost effectively (or even possibly) produced in paper form and which may be interrogated using interactive analysis tools **(IASC, 1999)**. It emerges from these definitions that Internet financial reporting means use of the internet for the dissemination of corporate information to the stakeholders.

2. Review of Literature

Even though various IFR studies had been carried out, there are still IFR issues that demand further research. **Xiao et al. (2004)** studied the factors (company size, auditor size, foreign listing, ownership diffusion, profitability, leverage and type of industry) behind 300 Chinese listed companies' voluntary adoption of Internet reporting. The results revealed that size was positively associated with financial disclosure on the web and profitability was negatively associated with Internet financial disclosure. The auditor size and nature of industry were also significant. Other variables were not significant. **Chatterjee and Hawkes (2008**) explored the differences in the accessibility of website information between New Zealand and Indian companies. A comparison of the websites of New Zealand and Indian companies suggests that Indian companies are lagging behind the New Zealand companies in regard to reporting some attributes of investor information such as interim reports, stock quotes and annual reports. On the other hand, Indian companies provide more analytical information, such as financial ratios, compared to New Zealand companies. Significant variations have been observed in the structure of websites, the level at which information was accessible within the websites and the terminology used. Findings suggest that variation in web design and the information disclosed, reduces accessibility and provides the possibility of confusion while trying to compare information across companies. **Arussi et al. (2009)** examined the effect of company size, profitability, financial leverage and industrial classification, on the extent of web disclosure, by leading 97 companies traded under Kuala Lumpur Composite Index (KLCI) on Bursa Malaysia. The results suggested some evidence regarding the association of web disclosure with firm characteristics. Company size and financial leverage were found to influence the extent of Internet disclosing of some items of financial information. There was no significant association between profitability and industry classification and extent of Internet disclosure. **Khan (2011)** investigated the relationship between Internet Financial Reporting (IFR) with contingency factors and firm specific characteristics. Based on multiple regression analysis, the findings showed that three main firm specific characteristics influenced the level of IFR i.e. firm size, listing period and return on equity. The findings also showed that there was a negative relationship between profitability ratio and dimension of content and overall index of IFR. **Henchiri (2011)** made an attempt to identify the determinants influencing the quality of financial information on the web sites of top 91 companies, listed on the Tunishia stock exchange. The determinants of web site quality were found to be the accounting performance and the proportion of shares held by foreigners. Web site quality was also linked to firm size. Apart from these characteristics, no effect of the economic sector, the country or market performance could be detected. **Oyelere and kuruppu (2012)** investigated key determinants of the use of the Internet as a channel for voluntary disclosure of financial information by 132 companies, listed on two stock exchanges (the Abu Dhabi Securities Exchange and the Dubai Financial Market) in the emerging economy of the UAE. The results indicated that firm size and leverage were the key determinants of the voluntary adoption of Internet financial reporting. However, other traditional firm characteristic, such as profitability, industry and liquidity did not explain the choice of the Internet for corporate financial disclosure. **Basuony (2014)** examined the determinants and characteristics of voluntary internet disclosures by listed companies in Saudi Arabia and Oman. The results of this study revealed that firm size is the major influencing factor that impacts internet financial reporting. Large firms tend to disclose more financial information in order to reduce information asymmetry and also reduce agency costs. Also, the more exposure large firms are subjected to, leads to the firms being under higher pressure to disclose information. **Drake (2015)** analyzed user access of SEC filings, hosted by EDGAR, to better understand the extent, timing, and determinants of investor information acquisition and to provide evidence on the consequences of investor information acquisition for stock price formation. Findings suggested that EDGAR activity was positively associated with firm events, poor stock performance, and the strength of the firm's information environment. **Sushila and Amol (2016)** investigated the web-based reporting of Indian hotel industry and analyzed the pattern and determinants, influencing the web-based reporting. Study established the association between web-based reporting and the various determinants. Results revealed that web-based reporting was significantly related to the size, liquidity, profitability and productivity of the hotels. Information symmetry and online reporting via internet technology facilitate various stakeholders. **Sanad and Musleh Al-Sartawi (2016)** investigated the relationship between corporate governance and internet financial reporting, for the companies, listed in Bahrain bourse. The findings indicated that the relationship between corporate governance and internet financial reporting was weak due to the fact that the board characteristics did not affect the level of disclosing information via the internet (IFR). However, the board size and big companies recorded positive relationship with IFR. The study recommends that regulatory bodies should develop a guideline of disclosing information, through the internet, in order to enhance the corporate transparency level among Bahrain listed companies.

3. Statement of the Problem

The main purpose of the study was to identify the extent and nature of internet financial reporting by Indian companies and to identify the factors that influence Indian companies, to voluntarily adopt internet financial reporting. It is important to measure the explanatory variables and to determine whether there is any relationship between these variables and the extent of internet financial reporting. According to theories (economic-based theories, institutional change theories and innovation diffusion theory), the firm's specific characteristics may affect the level of internet financial reporting.

4. Need of the Study

Majority of previous studies describes only the current situation of internet financial reporting, for Indian listed companies, without examining empirically its major explanatory variables. The number of factors examined as potential predictors of levels of internet financial reporting in previous studies varied. Some researchers examined only one determinant such as firm size **(Allam and Lymer, 2003)**. Other researchers examined two determinants such as firm size and percentage of free float **(Pirchegger et al., 1999)** or firm size and industry classification. Further, the number of factors, that drive firms to use electronic reporting in these studies, is not identical. These factors include firm characteristics (i.e. size, industry classification, profitability, financial leverage, percentage of free float, foreign listing auditor size, etc.), and corporate governance characteristics (i.e. ownership diffusion, board composition, and board experience, etc.). However, the results are often mixed.

5. Objectives of the study

The objectives of the paper can be listed as follows:

1. To measure the item-wise and company-wise disclosure of information (financial and non-financial) on the websites of selected companies in India.
2. To examine the influence of company attributes such as size and profitability on the internet financial reporting.

6. Hypothesis of the study

H_1: There is a significant positive association between company size and internet financial reporting.

H_2: There is a significant positive association between profitability and internet financial reporting.

7. Research Methodology

7.1. Sample Size

This study covered all the companies, included in BSE 100 Index, for the financial year 2015. The present study was an attempt to explore the relationship between internet financial reporting and corporate attributes. Corporate disclosure score of sample companies was computed for the year 2015-16.

7.2. Source of Data

Websites of selected sample companies were thoroughly studied, to collect the information for the financial year 2015-2016, to calculate web disclosure scores. Data about the company characteristics like size in terms of capital employed and profitability in terms of return on capital employed, were obtained from the Prowess database, which is maintained by CMIE.

7.3. Study Period

Corporate disclosure score of sample companies was computed for the year 2015-16.

7.5. Tools of Analysis

Descriptive Analysis, One sample t-test and Regression Analysis were used in the study.

8. Data Analysis

Table-1 shows the relationship between company size and Internet financial reporting. It can be observed from the Table that maximum mean disclosure score of 31.75(significant as P –value < 0.01) was recorded in the case of companies, with a capital at more than 6 million. The minimum mean disclosure score of 27.931 (significant as P-value < 0.01) was observed in the case of companies, having capital employed at less than one million. It is evident from this table that the mean disclosure score increased with an increase in the size of companies. Large deviation in the mean disclosure score, as indicated by standard deviation, was found in the case of the companies having capital employed between 1-3 million. There has been minimum variation in the mean disclosure score of companies, having capital employed at more than 6 million. Hence, **H-1** is accepted. It can be concluded that size did have positive association with internet financial reporting practices of the companies.

Table-2 shows the relationship between the variable of profitability and Internet financial reporting. It may be observed from the Table that the increase in profitability, measured by return on capital employed, led to positive change in the mean disclosure score and increase in return on capital employed. There was an increasing trend in the web disclosure score of companies, under different categories of return on capital employed. Maximum mean disclosure of 30.867 (significant as P-value < 0.01) was scored by companies having return on capital, at more than 20 percent. Minimum mean disclosure score of 28.069 (significant as P – value < 0.01) was noticed in the case of companies, having return on capital employed, less than 4 percent. Hence, **H-2** is accepted. In otherwords, there was significant positive relationship between profitability and internet financial reporting.

Table-3 shows the β-value and t- values of the independent variables. The t-statistics of size was positive. This was, as predicted by Hypothesis (H_1). Size was also found to be significantly associated with IFR index (as p-value <0.01) and hence the Hypothesis (H_1) is supported. This positive and significant association with internet financial reporting index is in line with previous researches on US companies **(Ashbaugh et al. (1999),** New Zealand companies **(Oyelere et al., 2003),** on Nigeria listed companies **(Agboola and Salawu, 2012).** These results show that company size motivates the companies towards Internet financial reporting. The larger a company is, the more likely it is to engage in IFR. Profitability has a positive β-value and significantly associated with IFR index. The value of adjusted R^2, represented by the model, shows that the size and profitability could explain 40.3% of variation in IFR disclosure scores. The F- value in the Table is 34.434 significant as p-value was < 0.01. It implied that the model was significantly fit, to predict the level of Internet financial reporting.

9. Findings of the Study

Finding revealed that large companies disclose more information on their websites than do smaller ones. One reason for the significant relationship between large companies and Internet financial reporting may be due to information cost, which demonstrates that large companies have the required resources for collecting, presenting and disseminating information on their websites. These resources are costly and therefore, only large companies are able to afford them due to the possibility of assigning these costs to their large number of products. The positive relationship between company size and Internet financial reporting in the current study is consistent with many prior studies **(Ashbaugh et al., 1999; Oyelere et al., 2003 and Xiao et al., 2004).**

Profitability of a company has a positive and significant association with the Internet financial reporting of Indian companies. It shows that companies, with greater profitability, disclose more information to signal their success and strength to present and potential foreign investors and market participants, to strengthen their management position and in turn, to justify management's compensation. These companies are expected to use voluntary disclosure techniques like Internet financial reporting, to increase the audience for company's information. This finding is consistent with many previous studies **(Hassan et al., 1999; Aly et al. 2010 and Khan, 2010).**

Firms can provide real time disclosure, with the help of internet financial reporting, by providing timely information on their website. Internet financial reporting helps in communicating the firm's focus on corporate social responsibility, diversity and innovation. This will help the investors to evaluate the firm's performance and readjust their portfolios. In India, majority of non-professional investors rely on the quality of information presented on the website. However, the information presented on the website does not alter the financial performance of the firm but Internet financial reporting helps in improving transparency and reducing information asymmetries between investors.Internet financial reporting has a greater influence on investor's perceptions of investment quality, in situations of uncertainty and risk in making an investment. High quality website features, along with nonfinancial content provided through interactive features, may influence user's perceptions to trust online information.

10. Conclusion

The study was set out to examine the relationship between company characteristics and Internet financial reporting by Indian companies. Descriptive statistics and multiple regression analysis revealed that firm size and profitability were significant determinants of internet financial reporting. In India, a growing number of companies are having their websites through which they disclose or communicate all necessary information to different interested parties. The proper utilization of the internet provides several benefits to companies as well as investors like low cost, flexibility, transparency, global reach, up to date information, access to historical data and easy accessibility of information on company website. As the nature of internet reporting is voluntary. It is also observed that there is a great deal of variation in content and presentation of the information disclosed on the web sites and terminology used for describing the information. This shows that no consistent pattern could be followed to access multiple website by different users. Companies engage in different disclosure strategies, by disclosing different attributes on their website and presenting a wide range of non-financial information on the home page. This would support the idea of easy accessibility of information on the company website, for making comparisons between companies across a global economy. Thus, there is a need for the global regulatory bodies, to make it standardized, so that Internet reporting becomes the main medium of reporting instead of an alternate medium to reach to the stakeholders.

11. Limitations of the Study

While the study provides some initial insights into Internet Financial Reporting Practices in India, it is subjected to a number of limitations, which also provide opportunities for further research. As Internet financial reporting is a new phenomenon in India, this study could not examine the longitudinal data of the Internet financial reporting.

12. Scope for Further Research

A number of points are still uncovered in the current research and could be subject to further research. Research may be undertaken to explore how Internet financial reporting affect stock prices and trading volumes of the shares. Future research might extend the scope of this study, by involving other countries, in comparative studies.

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Table-1:Descriptive Analysis - Company Size and Internet Financial Reporting

Company size Capital Employed (in Million)	Number of companies	Minimum score	Maximum score	Mean Disclosure score	t-value	p-value	Std. Deviation
Less than 1 million	29	22	34	27.931***	52.959	.000	2.840
1-3	24	24	36	28.75***	37.968	.000	3.709
3-6	23	26	37	30.52***	41.346	.000	3.54
More than 6	24	28	36	31.75***	63.848	.000	2.436

Source: Computed using SPSS20

***Significant at 1 % level

Table – 2: Descriptive Analysis - Profitability and Internet Financial Reporting

Profitability Return on capital employed (in percentage)	Number of companies	Minimum score	Maximum score	Mean Disclosure score	t-value	p-value	Std. Deviation
Less than 4	29	22	36	28.069***	54.189	.000	2.789
4-8	22	23	34	29.363***	42.256	.000	3.259
8-20	26	26	36	30.539***	49.796	.000	3.127
More than 20	23	24	37	30.867***	36.168	.000	4.091

Source: Computed using SPSS20

***Significant at 1 % level

Table –3: Multiple Regression Results

Independent Variable	β-value	t-value	p-value
Constant		1.862	.066
Size (Capital employed)	0.693	7.827	.000***
Profitability (Return on Capital employed	0.548	6.182	.000***
Model Summary			
R^2	0.415		
Adjusted R^2	0.403		
F-Value	34.434		
Significance	0.000***		

Source: Computed using SPSS20

***Significant at 1% level