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EXPLORING INTERNET FINANCIAL REPORTING (IFR) STRATEGIES OF FIRMS IN MALAYSIA

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ABSTRACT

Most firms currently utilise Internet financial reporting (IFR) because the Internet offers a more flexible presentation and content of reporting as well as allows the disclosure of more information. However, researchers argue that firms have to adopt corporate disclosure strategies to benefit from such innovations in technology. By using the taxonomy of Williams (2008), this study aims to investigate the IFR disclosure strategies that are being used by publicly listed firms in Malaysia. A detailed content analysis of the IFR disclosures of two firms reveals that both firms adopt different types of IFR disclosure strategies even if they are in the same industry. This finding provides preliminary evidence on the possibility for firms to utilise multiple IFR disclosure strategies. The findings from this study can also help stakeholders understand the IFR disclosure strategies that are possibly employed by firms, which can subsequently help them in making decisions.

Keywords: *Internet financial reporting, disclosure strategy, corporate disclosure, case analysis*

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Introduction

Corporate disclosure allows firms to obtain a mutually beneficial relationship with their stakeholders (Cormier, Ledoux & Magnan, 2009). Therefore, when disseminating corporate information especially voluntary information, firms must choose disclosure strategies that can maximise the benefits that they gain from such disclosure (Boot & Thakor, 2001; Dutta & Trueman, 2002; Fishman & Hagerty, 1989; Graham, Harvey & Rajgopal, 2005; Lev, 1992). Firms must devise a distinctive disclosure strategy because corporate disclosure allows them to communicate value-added information to their stockholders, which in turn can help these stockholders assess the value of such firms (Cormier et al., 2009; Engardio, 2007).

Even though managers fail to recognise the need to adopt strategies for communicating the information of their firms to interested parties (Eccles & Mavrinac, 1995; Erickson, Weber & Segovia, 2011), the need for such strategies is still being debated (Graham et al., 2005; Williams, 2008; Erickson et al., 2011). Firms require a proper disclosure strategy to reflect their true values, which can help them attract investors and other important stakeholders, such as bankers, suppliers and the government (Lev, 1992). By reflecting the strength of the capital market, these true values can assist a country in improving its economy. The issue of whether firms adopt a strategy and how they strategise their information disclosure remains unresolved. Williams (2008) developed a disclosure strategy taxonomy to theorise the information that firms would possibly disclose to safeguard themselves when facing different economic tragedies. However, this taxonomy is yet to be empirically examined.

The rapid evolution of Internet technology has significantly affected accounting practices and communication (Oyelere, Laswad & Fisher, 2003; Momany & Al-Shorman, 2006). As compared with traditional disclosure, Internet financial reporting (IFR) offers firms more flexibility in their presentation of information and generation of contents as well as a vast amount of information at a minimal cost (Allam & Lymer, 2003). Many firms in developed and developing countries are currently using the Internet to disseminate corporate, financial and performance information (Ashbaugh, Johnstone & Warfield, 1999; Debreceny, Gray & Barry, 1999; Ettredge, Richardson & Scholz, 2002; Gray & Debreceny, 1997; Khairul-

Azman & Kamarul Baraini, 2005). The Internet also enables firms to disclose traditional annual reports with additional financial and non-financial information in multiple formats to a wider audience (Jones & Xiao, 2004; Bónson & Escobar, 2006).

Internet World Stats (2011) reported that the number of Internet users worldwide reached 2.11 billion in 2011, with Asia having the most number of Internet users (44%). Approximately 59% (16.9 million) of the Malaysian population are Internet users. Given that the Internet has become the main communication channel for obtaining and searching all kinds of information, including the performance and other business information of firms, IFR has become a crucial strategy for firms that wish to maximise their value and to prolong their operations. Firms must consider adopting a proper disclosure strategy because the Internet can offer themgreater flexibility in presenting and reporting their information (Cormier et al., 2009). Unfortunately, even though scholars have paid special interest to issues on organizational strategies (Miles & Snow, 1978; Mintzberg & Waters, 1985; Porter, 1980; Saloner, Shepard & Podolony, 2001), only few studies have assessed disclosure strategies (Cormier et al., 2009).

Consequently, IFR with viable disclosure strategy has become a crucial management activity that must be understood by investors when assessing the value of a firm (Lai et al., 2007). Despite the many studies on IFR (Oyelere et al., 2003; Mohamed Hisham & Hafiz-Majdi, 2005; Chan & Wickramasinghe, 2006; Momany & Al-Shorman, 2006), nearly all of these studies have ignored IFR disclosure strategy, with some studies only discussing such strategy at the conceptual level (Williams, 2008).

Previous studies on IFR have focused on IFR status (e.g., Gray & Debreceny, 1997; Debreceny et al., 1999; Ettredge et al., 2002; Khairul Azman & Kamarul Baraini, 2005), while others have investigated the determinants of IFR practices (e.g., Ashbaugh et al., 1999; Ettredge et al., 2002; Debreceny, Gray & Rahman, 2002; Xiao, Yang & Chow, 2004) as well as the economic aspects of IFR determinants (e.g., Craven & Marston, 1999; Debreceny et al., 2002; Ettredge et al., 2002; Kelton & Yang, 2008; Oyelere et al., 2003; Xiao et al., 2004). This study aims to extend prior research on IFR issues by examining the disclosure strategies of firms that are engaged in IFR. Therefore, this study raises the question, *Do companies differ in* *their IFR disclosure strategies?* This paper attempts to shed light on the relative difference in the IFR disclosure strategies of publicly listed as well as to determine whether firms give great consideration to those disclosure strategies that benefit them the most.

This article is divided into six sections. Section one presents the research problem, objective, and question. Section two extracts relevant literature on IFR and disclosure strategies. Section three explains the theoretical framework of the study. Section four discusses the research methodology, including the sample and sample selection. Section five reports the data analysis and findings. Section six concludes the paper.

Literature Review

Internet Financial Reporting (IFR) Disclosure

Previous studies have defined IFR as the dissemination of corporate financial and performance information using Internet technologies, such as the World Wide Web (Ashbaugh et al., 1999; Trites, 1999). Ashbaugh et al. (1999) defined IFR firms as those that provide on their websites a comprehensive set of financial statements (including footnotes and auditor reports), annual reports, or a link to the SEC EDGAR system. Oyelere et al. (2003) defined IFR firms as those that provide footnotes and portions of financial statements or financial events (i.e., summary of their financial statements) on their websites. Therefore, IFR generally refers to the practice of firms in disclosing their corporate information on the Internet.

Previous studies on IFR primarily focus on the IFR practices of firms. Ashbaugh et al. (1999), Debreceny et al. (1999) and Ettredge et al. (2002) investigated the IFR practice of US firms at the end of the 1990s where firms included various types of corporate information on their websites. Khairul Azman and Kamarul Baraini (2005) investigated the IFR practices of Malaysian firms during the early 2000s. Investigating the IFR practices of firms provides information on the extent of their IFR disclosure over time, which actually involves time and money of firms when they are still not required to engage in such practices.

Later studies have investigated the determinants of IFR practices to understand the factors that trigger the IFR practices of firms. Ashbaugh et al. (1999) found that firms engaging in IFR tend to be larger and more profitable, which further emphasised the importance of establishing IFR to disseminate information to shareholders. Ettredge et al. (2002) divided IFR into mandatory and voluntary disclosure as well as used the incentives for voluntary disclosure theory to explain the dissemination of both types of information on the Internet. They found that mandatory disclosure was associated with size and information asymmetry, whereas voluntary disclosure was associated with size, information asymmetry, demand for external capital and disclosure reputation. Debreceny et al. (2002) examined IFR content and presentation and found the latter had a greater relationship with the level of technology and disclosure environment than the former. This finding might be attributed to the fact that IFR was still a voluntary practice in terms of content during their study period.

Recent studies on IFR examined the economic aspects of IFR determinants. Xiao et al. (2004) measured IFR in multiple dimensions (i.e., content, presentation methods, mandatory items and voluntary items) and found a significant positive association between IFR and institutional ownership. Several studies investigated the relationship between IFR and several factors, such as firm size, profitability, leverage, and listings (e.g., Craven & Marston, 1999; Debreceny et al., 2002; Ettredge et al., 2002; Oyelere et al., 2003). The economic aspects of IFR determinants provide a deeper understanding on the type of firms that deeply engage themselves in IFR. Therefore, these aspects can assist investors in making decisions on their investments. Investors may also be interested in the extent of governance in firms that engage in IFR practices. Therefore, later studies examined the influence of governance factors (i.e., ownership structure and composition of the board of directors) on IFR practices (e.g., Xiao et al., 2004; Kelton & Yang, 2008).

The IFR frameworks that were used in prior studies (e.g., Bónson & Escobar, 2006; Bollen, Hassink & Bozic, 2006; Debreceny & Rahman, 2005; Debreceny et al., 2002; Xiao et al., 2004) were mainly based on the idea of information asymmetry between managers and investors because the level of such asymmetry was an important driver of the uncertainties of investors. Traditional print-based disclosure has several limitations.

For example, an increase in the geographic dispersion of investors may increase the associated costs (i.e., printing and postage cost) and limit the reach of users. In contrast, Internet disclosure is cost effective, fast, has flexible formats and can be accessed by all types of users within and beyond national boundaries, hence helping firms moderate the adverse effects of information asymmetry.

IFR practices are considered voluntary until recently because of the significant development in Internet activities (Lymer & Debreceny, 2003). Regulators have started mandating listed firms to provide specific disclosures on the Internet, including France in 1999 (The COB, 1999), the US in 2000 (SEC, 2000), Canada in 2004 (TSE, 2004) and Malaysia in 2009 (SC, 2009).

Firms used to provide information either via printed annual reports (Lang & Lundholm, 1993) or by holding general meetings with shareholders (Frankel, Johnson & Skinner, 1999) to influence the behaviours of investors as well as to reduce the information asymmetry between managers and investors (Healy & Palepu, 1999; 2001). Many firms have recently offered supplementary data on the financial information that are posted on their websites (Lymer, 1999; Deller, Stubenrath & Weber 1999; Craven & Marston 1999; Gray & Debreceny 1997; Debreceny et al., 1999; Pirchegger, Schader & Wagenhofer, 1999; Ettredge et al., 2002; Marston & Polei, 2004; Khairul Azman & Kamarul Baraini, 2005; Bonsón & Escobar, 2006). Such supplementary data generally includes information on the favourable aspects of firms to the market; these data are provided voluntarily, and their publication is not required by laws or regulations (Lev, 1992).

Voluntary disclosures refer to the non-mandatory disclosure of accounting and other information that is relevant to the needs of various stakeholders (Meek, Roberts & Gray 1995). Prior empirical research on voluntary disclosures suggested that such disclosure could reduce agency or contracting costs (Chow & Wong–Boren, 1987), reduce the cost of capital (Botosan, 1997; Sengupta, 1998), and enhance the value of firms (King, Pownall & Waymire, 1990; Yeo & Ziebart, 1995; Frankel et al., 1999). When investors gain a highly favourable information that is voluntarily disclosed by firms, the information asymmetry is expected to become lower, which will subsequently reduce the agency costs, contracting costs and cost of capital as well as increase the value of firms.

IFR Disclosure Strategy

Disclosure activity does not differ in principle from other corporate activities, such as investment, production and marketing activities. Disclosure activity shares with these activities the fundamental characteristics of providing benefits and incurring costs. Therefore, disclosure activity warrants careful attention and long-term planning. Implementing an information disclosure strategy can maximise the potential benefits, minimise the costs and help firms achieve their desired goals.

Williams (2008) used the strategy definition of Mintberg (1978) to describe the role of disclosure strategy. She proposed a taxonomy of corporate reporting strategies that expanded the highly proactive voluntary disclosure characteristics that were developed by Eccles and Mavrinac (1995). This taxonomy provides a richer and more contemporary understanding of disclosure decision making by capturing various disclosure dimensions. In her work, Williams integrated the different forms (mandatory and voluntary information) and types (financial, social and environmental) of disclosure to provide a set of comprehensive voluntary disclosure strategies.

Williams (2008) proposed a set of four disclosure strategies that were placed on a continuum (see Figure 1). Ranked from least proactive to most proactive, these strategies include (1) corrective–preventive, (2) corrective–contextual, (3) additive–preventive and (4) additive–contextual. The continuum is based on two dimensions, namely. the strategic response of firms and their disclosure content. The corrective–preventive strategy is the least proactive form of disclosure, whereas the additive–contextual strategy represents the most proactive. In both corrective strategies (corrective–preventive and corrective–contextual), the additional information is released voluntarily at the discretion of the firm and managers tend to release such information in a more timely manner to prevent misunderstandings or violations. In both additive strategies (additive–preventive and additive–contextual), the additional information is also released voluntarily, but managers tend to release or even withhold such information in a less timely manner for different possible reasons.

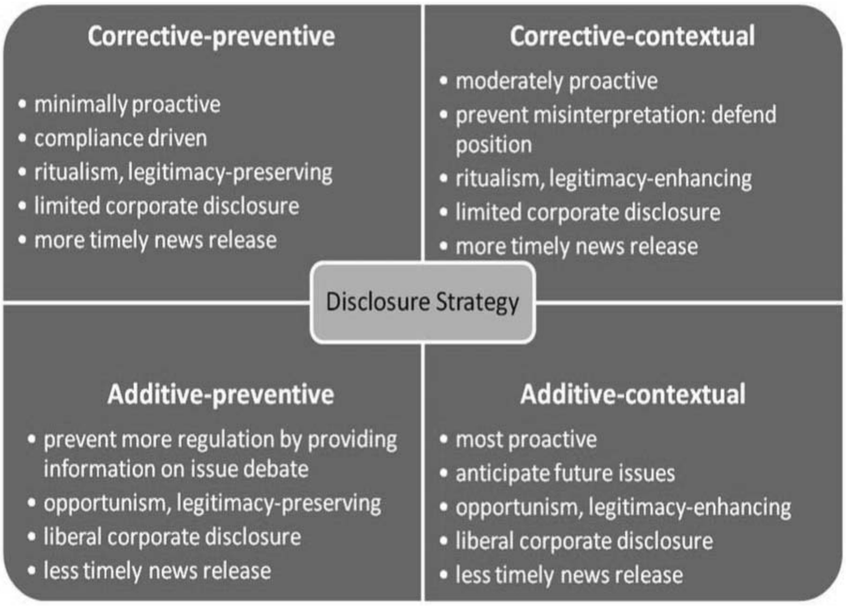

Figure: Disclosure Strategy Taxonomy
Source: Williams (2008)

By focusing on the types of disclosure, Cormier et al. (2009) presented a taxonomy that was similar to that of Williams (2008). They categorised disclosure strategies into (1) business-related disclosure strategies, which referred to disclosure on innovation, development and growth that were primarily related to customers, (2) social-related disclosure strategies, which were linked to social responsibility reporting and concerned the influence of the public and the employees, and (3) financial-related disclosure strategies, which comprised financial performance disclosure and highlighted the corporate governance practices of firms.

Conversely, Boot and Thakor (2001) suggested that disclosure could be distinguished based on the information that was being processed by the users. They proposed three types of disclosure, namely, (1) to-be-processed complementary information, which referred to the disclosed information that had no value unless processed by the informed investors in order to discover its implication to the firm value, (2) pre-processed complementary information, which referred to the disclosed information that could readily be used by all investors and permit them to revise their expectations towards the firm value, and (3) substitute information, which referred to the disclosed information that could readily be consumed by all investors.

In summary, the advent of the Internet has given rise to the need for firms to reassess their disclosure strategies. This technology offers more flexibility as well as decreases the costs in the presentation, content and volume of reports. This study utilises the taxonomy of Williams to explore the disclosure strategies of selected firms in Malaysia. This paper aims to determine the applicability of such taxonomy in distinguishing the corporate disclosure strategies of the selected firms. This taxonomy has not been tested empirically and is seen as the most relevant classification of the reporting strategies that are adopted by firms when facing different types of challenges.

Theoretical Framework

This study adopts upper-echelons theory, which focuses on the characteristics of the top management, particularly the upper echelon of a firm (top executives) (Hambrick & Mason 1984). This theory explains that top managers differ from one another in their worldview, ideology, values and beliefs, which provide signals of how they will act in a given situation (Goll & Zeitzs, 1991). Upper-echelons theory has a role in disclosure (Lubatkin, Lane, Collins & Very 2007) because the topic of disclosure currently has no unifying theory (Verrecchia, 2001) and top executives have a great influence on the decision-making processes of their firms (Hambrick, 2007). Given that managers have superior access to and control over their corporate information as compared to other corporate constituents (Marcoux, 2003), much of the decision rests on the discretion and strategic intent of managers in releasing certain information, specifically voluntary information.

Research Methodology

This exploratory study examines the IFR disclosure strategies that are employed by two distinct industries in Malaysia, namely, trading and services. Each industry is represented by one publicly listed firm. The websites of firms in these industries are targeted towards their customers than towards their potential or existing investors (Holm, 2000). Therefore, this study anticipates that these two industries have different IFR disclosure strategies. Those firms whose financial year ended at 31 December 2008 and previously engaged in IFR were selected as the unit of analysis for this study.

This study primarily aims to use the taxonomy of William (2008) to explore the IFR disclosure strategies that are adopted by the selected firms. A qualitative data analysis approach is employed to delineate the different disclosure strategies that are employed by the selected firms. Only two firms are examined in the study because the disclosures have a voluminous amount and require extensive analyses. Although a larger sample is desirable, two firms are sufficient in a qualitative enquiry (Abd. Rahim & Goddard, 1998). Having two firms as samples enables the researchers to make comparisons, perform the necessary evaluation, and answer the research question.

The first step in the data analysis is to select the appropriate samples. Publicly listed firms with a corporate website and IFR were identified by browsing through the Bursa Malaysia website (www.klse.com.my/website/bm/listed_companies/list_of_companies/main_market), which provides links to the websites of publicly listed firms. Out of the 839 firms listed in Bursa Malaysia, 308 did not have websites. Therefore, only 531 publicly listed firms in Malaysia had IFR. Only two sample firms that represented the trading and services industries were chosen for this study. Both firms utilised IFR as a disclosure strategy and ended their financial year at 31 December 2008. Information on these firms was collected from their respective websites for analysis.

Content analysis was performed to analyse the collected qualitative data. All information including the investor relations pages, corporate information pages as well as the sub-pages for both sampled firms were examined. The obtained information was scrutinised line by line to determine if they reflected the themes that were suggested in the taxonomy of Williams (2008). This tedious process was performed using Nvivo7, a qualitative data management software.

The taxonomy of Williams (2008) was used as a research framework to determine IFR disclosure strategies. The taxonomy identifies four types of disclosure strategies, namely, (1) corrective–preventive, (2) corrective–

contextual, (3) additive–preventive, and (4) additive–contextual. William (2008) outlined the characteristics of each strategy, and this outline was used as a basis in identifying the IFR disclosure strategies of the selected firms.

Findings

Sample

The two selected firms are engaged in trading and services. These companies are termed as Company A (Co A) and Company B (Co B) in this study. The principal activities of Company A and of its subsidiaries include logistics, freight forwarding and investment holding, while that of Company B include casino, gaming and leisure services. The 2008 financial highlights for both firms are presented in Table 1.

Table 1: 2008 Financial Highlights

Item	Co A RM'000	Co B RM'000
PROFITABILITY		
Revenue	163,892	227,809
Profit before taxation	17,089	(3,294)
Profit after taxation and minority interests	14,767	(2,874)
BALANCE SHEET		
Share capital	81,671	87,205
FINANCIAL RATIO		
Revenue growth	0.5%	–18%
SHARE INFORMATION		
Earnings per share (sen)	21.12	–0.33

General features of IFR

The websites of Co A and Co B are both linked to Bursa Malaysia and can be accessed through the Bursa Malaysia website (www.klse.com.my). Upon entering these websites, the browsers are shown impressive video presentations of the company. Co A uses light colours in its presentations, while Co B uses bold and strong colours. Both companies boast about their international linkage on their homepages. The first caption on the homepage of Co A reads, *"Welcome to Asia's Leading provider of supply chain solutions and total logistics solutions,"* while the homepage of Co B includes the caption, *"…has 20 years of experience and expertise with operations spanning the kingdom of Cambodia, Lao PDR, Singapore, Macau SAR, the Philippines and Japan."*

The IFR of both firms includes investor relations as its main content. On the one hand, the investor relations pages of Co A includes six subpages that include bursa announcements, annual reports, analyst reports, corporate structure, board of directors and corporate social responsibility. On the other hand, the investor relations pages of Co B include bursa announcements, annual reports, corporate structure and disclosure on board of directors. However, Co B discloses its stock information in a separate section of its webpage. Co B also has a financial highlights subpage that is separated from the annual report subpage. Both firms disclose announcements from Bursa Malaysia on their websites. Co B tags these announcements as "News Room," while Co A as tags these announcements as "Bursa Announcement."

Corrective–Preventive versus Additive–Preventive

William (2008) defined the corrective–preventive strategy as a compliance-driven disclosure. In other words, the firms that adopt such strategy are likely to respond in a corrective manner by attempting to "make things right." By using this strategy, a firm strictly adheres to its own norms and rituals when disclosing financial information. Therefore, firms will voluntarily disclose a minimal amount of social, environmental or financial issues to avoid complications.

The disclosure of Co B is primarily mandatory because its investor relations page only provides mandated disclosures, such as bursa announcements, annual reports, corporate structure and board of directors. A segment in the investor relations webpage of Co B is allocated for disclosing the financial wellbeing of the firm. Although included in the annual report of the firm, this information is reported in a summarised manner in the investor relations webpage of Co B. All quarterly reports for 2009 are also published in the website of Co B. The firm places greater emphasis on the disclosure of its financial standing to its investors through IFR, which may be attributed to the fact that Co B has a negative profit before tax, a negative (–18%) revenue growth and a negative (–0.33 sen) earnings per share in 2008 (see Table 1). Therefore, Co B proactively convinces its stockholders about the stability of its financial position through IFR despite its negative positions in 2008.

Additive–preventive strategies are used to create an impression that the adopting firms are responsible, transparent or rational (Cheney & Christensen 2001; Livesey, 2001). Some firms tend to disclose information to multiple constituents in order to pacify and bargain with their stakeholders, which will subsequently help them avoid criticisms, burdensome regulations or true harm. Such firms provide additional information to enhance their performance and avoid the externally imposed restrictions. As a result, the firms that adopt additive–preventive strategies are more proactive than those that adopt the two previous corrective strategies. These firms also use combined forms of disclosure (e.g., social, environmental and financial) while focusing their contents on prevention.

The information that is disclosed in the IFR of Co A appears to be less conservative. The firm not only presents its "traditional" annual report, which is converted to PDF format, in its investor relations page, but also has subpages for its analyst reports and corporate social responsibility activities. Co A also presents a segment on its webpage about the future of the company that is tagged as *"Dawn of a New Century"* in its information page. The firm demonstrates additional effort in convincing investors about the quality of its services by showing three separate segments on its information webpage, namely, the *"quality policy," "safety health policy"* and *"quality management."* Co A also places greater emphasis on informing the public about its health, safety and quality issues, which are debatable issues for the service industry, through its IFR. Co A also ensures that the public, specifically its stockholders, clearly understand the niche of the firm. However, Co A does not disclose timely information, such as quarterly reports, on its website.

These analyses show that Co A adopts an additive disclosure strategy because its IFR disclosure is geared towards the prevention of future harm than the correction of past deeds. The disclosure on the policy of the firm towards environmental preservation can be interpreted as the intention of the firm to convince the public and the authorities about the social responsibility of the company. Co B appears to engage in corrective–preventive strategies because its IFR is primarily focused on the presentation of timely financial information, which can be interpreted as an effort to rectify the negative perceptions towards the firm that are caused by its negative financial information in 2008. Table 2 compares the corporate information pages of Co A and Co B.

Table 2: CO A vs. CO B Corporate Information Page

Co A	Co B
About Us	Corporate Overview
Dawn of a New Century	Principal Activities
Vision and Objectives	Group Corporate structure
Quality Policy	Office Location
Safety Health Policy	Joint Ventures
Quality Management	

Ritualism versus Opportunism

Gibbins, Richardson and Waterhouse (1990) identified ritualism and opportunism as the dimensions of the disclosure positions for firms. Disclosure positions refers to the preferences of managers in managing their disclosure, whereas ritualism refers to the behaviour of individuals or firms to conform to the prescribed norms. Ritualistic firms focus on information that adheres to rules and regulations, such as accounting standards or securities regulations. In contrast, opportunism refers to the behaviour of individuals or firms to seek advantage from a specific activity. Opportunistic firms appear to disclose information that allows them to gain benefits from the disclosure.

Almost all of the information that is provided by Co B in its investor relations and corporate information pages is mandatory in nature. However, Co B does not have additional voluntary information pages, such as corporate social responsibility and bursa announcements. Therefore, the voluntary disclosures in the IFR of Co B are minimal. Conversely, Co A provides more voluntary information in its IFR as can be seen on its corporate information and investor relations pages. Therefore, the disclosure strategy of Co A is opportunistic in nature.

In the corporate social responsibility segment of its website, Co A reports on its environment-friendly business as follows:
"…we also ensure that our operations result in minimal environmental impact. Our initiatives to environmental stewardship include our fleet renewal programme. In this context, all our new trucks are fitted with at least Euro 3 Engines which entitles us to Green Engine Certification from SIRIM and JPJ, resulting in 50% road tax rebate."

Conclusion

This study uses William's taxonomy (2008) to examine the disclosure strategies that are adopted by firms in their IFR. Qualitative data are obtained from the websites of firms, which are accessed through the Bursa Malaysia website. Content analysis is performed to analyse the data qualitatively. The two selected firms exhibit different disclosure strategies in their IFR. One firm appears to adopt a corrective–preventive strategy, while the other firm appears to use an additive–preventive strategy. Therefore, both firms appear to choose a strategy that can help them maximise the benefits from IFR. The findings from this study support the application of upper-echelons theory in explaining the disclosure strategies in IFR. Regulators must properly monitor their IFR to protect the public interest because some firms use their IFR to their own advantage. Future studies must incorporate the perspectives of managers to identify their motivations in formulating the disclosure strategies of their firms.

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