

# Internet Financial Reporting: An insight into Indian Practices

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## ABSTRACT

The advancements in information technology, growth in internet users and globalization have made impact on disclosure practices of the firm. The growing importance of financial reporting on corporate websites has made it an important area of academic research. The study provides insight into internet financial reporting practices of 493 sample companies out of BSE- 500 companies for the year 2015. A checklist is prepared to measure financial reporting behaviour of Indian companies on corporate websites. Content analysis was used to determine disclosure scores of sample companies. Item wise scores were calculated to identify the most and the least reported item. Further, industry wise scores were calculated to analyze disclosure variations according to industry sector. The results reveal that mean disclosure score of financial information on the websites for the sample companies is 75.15 percent. Mining industry sector leads with mean score of 74.32 percent across all industry sectors.

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## 1. Introduction

Disclosure behaviour of the firm plays a pivotal role in portraying management's transparency and accountability (Puspitaningrum and Atmini, 2012). The advancements in information technology, growth in internet users and globalization have made an impact on disclosure practices of the firm. The internet has spurred as widely acknowledged channel for dissemination of business and accounting information (CICA and CIRI, 2008). Internet financial reporting (IFR) refers to use of corporate websites to disseminate information about firms' financial performance (Poon et al., 2003). IFR as an alternative manifestation of financial disclosure addresses to problems of traditional paper based disclosures. Unlike traditional paper based disclosures like annual reports, newspapers and brochures, IFR provides real time information (Kelton and Yang, 2008), allows presentation of information in multitude of formats (Xiao et al., 2004; CICA and CIRI, 2008) and caters to needs of wide array of users (Ettredge et al., 2002). In nutshell, the internet well equips the concerned parties with financial information to make timely investment decisions, thereby minimizing information asymmetry problems.

The growing importance of internet financial reporting on corporate websites has made it an important area of academic research. The study makes several contributions to voluntary disclosure literature. Despite adoption of internet financial reporting by Indian companies, there is no regulatory framework that provides standardized formats to ensure authentic and effective dissemination of information to the end users. The voluntary nature of IFR poses challenge for accounting regulators and policy makers to provide national and international standardized formats for IFR. Second, the dynamic nature of IFR calls for continuous examination of IFR practices. Thus, the study makes and attempt to investigate internet financial reporting practices of BSE-500 companies.

## 2. Review of literature

The theoretical justifications drawn from agency theory and signaling theory provide framework for firms' voluntary disclosure behavior. Agency theory (Jensen and Meckling, 1976) contends that voluntary disclosure reduces agency costs (Chow and Wong Boren, 1987). Internet financial reporting as a manifestation of voluntary disclosure mitigates agency problems by minimizing information asymmetry between shareholders and managers of the firms (Debreceeny et al., 2002). Signaling theory concedes that adoption of internet as a disclosure medium adds to credibility of the firm being updated with the latest technology (Craven and Marston, 1999).

The extant literature on internet financial reporting can be classified as descriptive studies (that provide insights to disclosure practices of firms on corporate websites either country specific or cross country comparisons) or association studies (examining the impact of firm specific characteristics as determinants of IFR). Gowthrope and Flynn (1997) examined top 100 Fortune 500 US companies and revealed that 89 percent had websites and 71 percent disclosed financial information on their corporate websites. Ashbaugh et al. (1999) investigated characteristics of firms that motivate dissemination of mandatory filings through corporate websites but lacked theoretical rationale. Ettredge et al. (2002) argued that there is variation in association of factors that impact voluntary disclosure of information from web based disclosure. Debreceeny et al. (2002) investigated web based reporting practices across twenty two countries and revealed disclosure environment of country to be key environmental factor for presentation of information on corporate websites. Poon et al. (2003) raised four vital issues (what to report, when to report, how to report and who is responsible to report) that need to be addressed while developing IFR framework. Abdelsalam and Street (2007) and Ezat and Masry (2008) focused on timeliness dimension of internet financial reporting and explored its association with corporate governance mechanisms.

Several standard setters and professional accounting bodies have undertaken IFR studies. Lymer et al. (1999) addressed issues like quality, timeliness, relevance, privacy and authenticity of financial information. CICA and CIRI (2008) report investigated the key attributes of internet financial reporting and recommended practices that firms need to incorporate while disseminating information on corporate websites.

While there has been growing body of IFR literature in developed nations like US (Louwers et al., 1996; Deller et al., 1999, Ashbaugh et al., 1999, Ettredge et al., 2002), European countries (Craven and Marston, 1999, Holm, 2000), New Zealand (Oyelere et al., 2003), Australia (Chan and Wickramasinghe, 2006), limited studies have been conducted in developing nations like Thailand (Davey and Homkajohn, 2004), China (Xiao et al., 2004) and Egypt (Elhelaly and Mohamed, 2014). A few Indian studies by Raman et al. (2003), Shukla and Gekara (2010) and Verma (2011) explored internet financial reporting practices of Indian companies but the dynamic nature of internet reporting calls for continuous examination. Thus, the present study makes an endeavour to gauge the internet reporting practices of BSE-500 companies. In order to achieve this objective, the present study analyses the item wise internet financial disclosure. Further, industry wise scores were calculated to analyze disclosure variations according to industry sector.

### 3. Objective of the study

The objectives of the study are:

1. To examine the extent of internet financial reporting practices of Indian companies.
2. To analyze the industry wise IFR disclosure by Indian companies.

## 4. Research Methodology

### 4.1 Sample

The study examines internet reporting practices of companies listed on BSE-500 index as on June, 2015. Out of 500 companies, 7 companies were dropped because it was not possible to examine the website of company on the account of merger of the companies or the web page being under construction. Thus, the final sample comprises 493 companies. The sample companies come from 16 industry sectors as explained by Table 1.

**Table 1: Industry Sector Classification**

S.No.	Industry Type	Frequency	Percent
I	Mining	19	3.9
II	Food and Beverages	28	5.7
III	Textiles	14	2.8
IV	Chemicals	41	8.3
V	Pharmaceuticals	34	6.9
VI	Rubber, Plastics, Wood & Leather Products	16	3.2
VII	Metals and Non Metals	51	10.3
VIII	Electronics & Electrical Equipments	28	5.7
IX	Machinery and Equipments	19	3.9

X	Transport Equipments	18	3.7
XI	Electricity, Gas and Power	24	4.9
XII	Construction	38	7.7
XIII	Transportation and Storage	12	2.4
XIV	Accommodation and Other Related Services	16	3.2
XV	Information and Communication	54	11.0
XVI	Banks and Financial Institutions	81	16.4
	Total	493	100.0

Source: Author's calculations

### 4.2 Technique

Content analysis of companies' websites was performed in the mid of July 2015 to determine Internet disclosure index score. The index comprises 21 financial attributes adopted from the studies Xiao et al. (2004) and Verma (2011). The scoring of items has been done on dichotomous basis, encoded as 1 for presence on item on website and 0 otherwise, except for two items i.e. annual Reports and quarterly results. The two items have been given an added score on 3 point scale to account for the number of years for which these financial statements have been disclosed. The maximum obtainable score came out to be 25. Item wise disclosure score has been calculated by dividing the number of companies disclosing a particular item with total number of companies in the sample i.e. 493. Ms Excel has been used to calculate descriptive statistics for item wise score and industry wise scores. One way ANOVA has been used to examine whether there are any differences across industries.

## 5. Analysis and Findings

### 5.1 Item wise Internet Disclosure

Financial information provides understanding to investors about firm's performance, financial position and future prospects. This information portrays true economic picture of the firm (Kothari and Short, 2003). It provides quantitative representations of corporate entities and aids investors in determining and analyzing profitable investment avenues (Bushman and Smith, 2003).

Table 2 provides item wise disclosure score of financial information on internet. All the sample companies are disclosing items like annual reports, auditor's report, balance sheet, profit and loss account, cash flow statement, notes to financial statements, shareholding pattern and dividend policy. Despite, full disclosure of annual report by all the sample companies, there is considerable variation in the number of years for which the sample companies provide annual reports. Majority of the companies (47.26 percent) are providing annual reports for past six to ten years, whereas only 31.44 percent disclose annual reports for more than ten years and only 21.30 percent provide for one to five years. Only four companies are not providing quarterly results on their websites, whereas majority of the companies (49.90 percent) are disclosing quarterly results for six to ten years. 21.10 percent of the sample companies disclose for more than eleven years and 28.19 percent for one to five years. Segmental reporting, management report and share price history follow the lead with 98.78 percent, 98.17 percent and 97.97 percent respectively. The companies also

performed better on disclosing unpaid/unclaimed dividend (84.99 percent) and graphical presentation of share price history (78.70 percent). The companies scored extremely poor on items like fact books, excerpts of the annual report and compliance with International accounting standards/IFRS. Merely 8.72 percent of the sample companies provide excerpts of annual reports for the current year and only 4.67 percent showed compliance with International Accounting Standards/ IFRS.

On an average, financial information items are disclosed by 75.07 percent companies with a variation of 4.67 percent to 100 percent. 38.09 percent (8 items) of the items are reported by all the sample firms. The full compliance of the firms with regard to

annual reports and other financial statements like auditor report, balance sheet, profit and loss account, cash flow statement, notes to financial statements, shareholding pattern and dividend policy is not surprising since the provisions of Companies Act, 2013 makes it mandatory for the firms to disclose this information. The low scores of excerpts of annual reports highlight that the firms are producing mere replica of hardcopy version of the annual report in the form of electronic version (Poon et al., 2003). The compliance with International accounting standards / IFRS is the least reported item across the category as such a practice is shown by only those firms which have overseas subsidiaries.

**Table 2: Item wise disclosure score of Internet Financial Reporting**

S.No.	Items	No. of Companies Disclosing an item	Disclosure (%)
1	Annual report of current year	493	100.00
	1 -5 years	105	21.30
	6-10 years	233	47.26
	11 or more years	155	31.44
2	Auditor report of current year	493	100.00
3	Balance sheet of current year	493	100.00
4	Cash flow statement of current year	493	100.00
5	Income statement/ P&L Account of current year	493	100.00
6	Notes to financial statements of current year	493	100.00
7	Shareholding pattern	493	100.00
8	Dividend policy	493	100.00
9	Quarterly Results	489	99.19
	0 years	4	00.81
	1 -5 years	139	28.19
	6-10 years	246	49.90
	11 or more years	104	21.10
10	Segmental reporting in current year	487	98.78
11	Management Report/Analysis in current year	484	98.17
12	Share price history	483	97.97
13	Unpaid / unclaimed dividend	419	84.99
14	Graph of share price history	388	78.70
15	Financial review/ financial highlights	325	65.92
16	Growth rate / ratios and charts	279	56.59
17	Current share price	166	33.67
18	Dividend history	150	30.43
19	Fact books/ other information supplied to analysts	92	18.66
20	Annual report of current year (excerpt)	43	8.72
21	Compliance with International Accounting Standards/IFRS	23	4.67
	Overall Mean	370.09	75.07

## 5.2 Industry wise internet disclosure score

This section analyses internet reporting practices of the companies on the basis of industry classification. As evident from Table 3, the overall mean disclosure score of financial information across all the industrial sectors is 71.15 percent with a range of 48 percent to 100 percent, supported by high standard deviation of 9.506. It is evident that companies within the same industry are not following uniform disclosure pattern with regard to internet financial disclosure. Mining sector has

maximum mean disclosure score of 74.32 percent followed by Information and Communication sector with mean disclosure score of 73.85 percent. Chemicals industry, Pharmaceuticals industry and Food and Beverages Industry follow with mean disclosure score of 72.68 percent, 72.47 percent and 72.29 percent respectively. Textiles industry ranks last with mean disclosure score of 65.71 percent. The companies with maximum disclosure score of 100 percent belong to Information and Communication industry. In order to statistically examine

the relationship between industry type and IFR, one way ANOVA has been used. Table 4 presents results of ANOVA for industry wise comparison of the sample Indian companies. The

results of ANOVA reveal that there is no significant association between industry type and CIR at one percent level ( $p$  value-.117>0.01).

**Table 3: Industry wise analysis of Internet Disclosure Score**

Industry Type	N	Mean (%)	Minimum (%)	Maximum (%)	Std. Deviation
Mining	19	74.32	60.00	88.00	8.876
Food and Beverages	28	72.29	52.00	96.00	10.773
Textiles	14	65.71	48.00	84.00	11.711
Chemicals	41	72.68	52.00	88.00	8.759
Pharmaceuticals	34	72.47	52.00	88.00	8.795
Rubber, Plastics, Wood & Leather Products	16	68.50	60.00	80.00	5.241
Metals and Non Metals	51	69.73	48.00	96.00	11.517
Electronics & Electrical Equipments	28	70.57	56.00	84.00	7.320
Machinery and Equipment	19	69.68	48.00	84.00	8.976
Transport Equipments	18	70.89	52.00	96.00	12.179
Electricity, Gas and Power	24	71.50	52.00	92.00	9.820
Construction	38	69.05	56.00	88.00	7.002
Transportation and Storage	12	71.00	48.00	84.00	9.361
Accommodation and Other Related	16	68.00	56.00	84.00	7.729
Information and Communication	54	73.85	52.00	100.00	9.539
Banks and Financial Institutions	81	71.36	48.00	92.00	9.705
Total	493	71.15	48.00	100.00	9.506

**Table 4: Results of ANOVA for Industry wise comparison of Disclosure Scores**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1789.94	15	119.33	1.334	.177
Within Groups	4268.25	477	89.45		
Total	44458.19	492			

## 6. Conclusion

The study provides evidence on internet financial reporting practices of 493 sample companies out of BSE-500 companies. The findings revealed that all the sample companies are disclosing items like annual reports, auditor's report, balance sheet, profit and loss account, cash flow statement, notes to financial statements, shareholding pattern and dividend policy because of their mandatory nature. The compliance with International accounting standards / IFRS is the least reported item across the category as such a practice is shown by only those firms which have overseas subsidiaries.

Further, the present study analysed the industry wise disclosure scores of the companies. The overall average disclosure of Accounting and Financial Information for the sample companies is 75.15 percent. This clearly reveals that

Indian companies are doing fairly well with regard to disclosure of financial information on their corporate websites. It has been found that Mining industry leads with 74.32 percent disclosure score closely followed by Information and Communication Industry with mean disclosure score of 73.85 percent. The findings of one way ANOVA analysis reveal that there are no significant differences among the companies on the basis of industry sector.

The study suffers from few limitations. The study gauges the internet reporting practices of Indian companies on only one dimension, i.e. financial disclosure. The internet disclosure behaviour can be explored on other non financial information like corporate governance information, CSR disclosure and marketing information.

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