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CORPORATE GOVERNANCE, ANNUAL REPORT DISCLOSURE, AND INTERNET FINANCIAL REPORTING INDEX

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ABSTRACT

This research investigate the effect of corporate governance and disclosure of annual report on companies internet financial reporting index. The index developed by Almilia (2009) which consist of measurement components content, timeliness, technology, and user support. The independent variables are corporate governance (with modified instrument from Forum for Corporate Governance in Indonesia) and disclosure of financial statements. This research using company samples from KOMPAS 100. The result confirms that corporate governance have significant positive effect on internet financial reporting index. The results shows that good corporate governance will expand their disclosure of information on internet. For disclosure of annual report, companies focus on mandatory components from Bapepam-LK and their voluntary components will be shows on company website. Another findings, only a few companies present their financial reports in two form (Pdf and HTML). Based on compenents of internet financial reporting index, all of company samples use their name as website address and complete user support for external parties to access the company website.

Key Words: Internet reporting, Corporate governance, Disclosure of annual report, Company website

Introduction

In the era of communication, internet usage increase so rapidly. In its application, the business to business (B2B) also did not want to miss harness the speed of the internet (Jones and Xiao, 2004). Kelton and Yang (2008) argues that the Internet has become a medium that is flexible and unique. And it can be viewed by the company to facilitate the disclosure process, in particular the financial statements. An interesting fact was also noted by Jones and Xiao (2004), the large companies already use the internet as a medium for disclosure of financial information, products, and related business ventures. In the end, the Internet as a medium for the delivery of information in companies considered instantaneous and global, but still voluntary (Abdelsalam et al., 2007).

Internet presence and Website Company raises dissemination of financial information as a form of disclosure (Ashbaugh et al., 1999). There are three facts that support the above statement: Marston and Polei (2004) found that the disclosure of financial statements via the internet has been rife done by companies; Kelton and Yang (2008) proved that the internet has increased the transparency of the process of dissemination of the financial statements, and Hindi and Rich (2010) found that the Internet is a source of information most frequently visited by investors, through the selection of the FORTUNE 100

The widespread use of the Internet as a medium of expression was also found by some researchers. Abdelsalam et al. (2007) found that the use of the internet in making large-scale companies in the UK has decreased financial presentation in hard copy. This decline is already perceived Ashbaugh et al. (1999) who in the late 19th century states "The use of paper-based reporting began to decline". Concerns regarding this phenomenon was answered by Almilia (2009), who saw that the development of an increasingly dynamic business world, make financial reporting paper-based fast becoming less and less useful. Financial reporting in the electronic-based also replaces. Similar statement also stated by Smith and Pierce (2005) in which globalization has made the evolution of the financial reporting, from paper-based to electronic-based.

Basically, the accounting information used in decision making by investors, so the relevance is needed (Ashbaugh et al., 1999). Timeliness is an important component in the relevance of financial statements, the timeliness of reporting and presentation to the public. Timeliness is also one form of dissemination of financial information (Abdelsalam and Street, 2007). Actually, timeliness has long been recognized as qualitative attributes of financial statements, but not much research associated with it. To date, the development of technology, especially the Internet, is the answer to the problems related to timeliness of financial reports (Ezat and El-Masry, 2008).

In Indonesia, there is a Undang-Undang Perseroan Terbatas No. 40 of 2007 which requires companies in Indonesia reported its activities are sustainable. On the other hand, Indonesia has no specific regulations related to the presentation of financial statements via the internet. This raises new issues about the comparability and reliability of the financial statements of the company (Almilia, 2009).

Materials and Methods.

Since 2007, several researchers examined the relationship between Internet financial reporting by corporate governance (CG). Initial research conducted by Abdelsalam et al. (2007) showed evidence that there is a significant negative effect between corporate ownership (major shareholding and director holding) with Corporate Internet Reporting (CIR). CIR is another terminology in internet financial reporting. Basically, the terminology is the same as CIR internet reporting (IR), Internet financial reporting (IFR), internet - based corporate disclosure (ICD), and the Internet financial reporting index (IFRI). Study Abdelsalam et al. (2007) were conducted on companies in the London Stock Exchange is using components comprehensiveness, content, credibility, and usability. The results of the study followed by Abdelsalam and Street (2007) by linking corporate governance used by CIR timeliness, the CIR measurement of the timeliness of reporting and presentation of financial statements via the Internet . Elsewhere, Kelton and Yang (2008) also tried to prove the findings of the relationship between CG and Internet Financial

Reporting (IFR). IFR indexes used this time to find significance that the ownership has negative and positive effect on audit factor IFR.

Studies of Internet financial reporting began much done in some countries. Especially for Indonesia, Almilia (2009) have tried to modify the index can be used. Starting from the research and supported from previous studies to be tested then the relationship between corporate governance on Internet Financial Reporting Index. The use of the index here refers to Internet Financial Reporting Index (IFRI) developed Almilia (2009), specifically for companies in Indonesia. Researchers also tested the company's financial statement disclosure of the IFRI. An early indication of this test is the relationship between the disclosure of a company's financial statements and IFRI, as both are part of the construct of disclosure. Formulations of the problem that will be answered in this study are:

1) Is corporate governance has a positive effect on the index of internet financial reporting?
2) Is the disclosure of financial statements of companies has a positive effect on the index of internet financial reporting?

The populations in this study are the companies that went public in the Indonesia Stock Exchange. While the samples taken are companies incorporated in the Compass 100 index. Data used in this study is the data quantitative, which are continuous and discrete. Sources of this study were drawn from two places: the company's website and the website Indonesia Stock Exchange (IDX). Of the proposed formulation of the problem, researchers create a mathematical model of research as follows:

$$IFRI = \beta_0 + \beta_1 CG + \beta_2 SDisc + \varepsilon \quad \text{..... Eq. 1}$$

Internet Financial Reporting Index (IFRI)

In this study, the dependent variable is IFRI with built Almilia index model (2009). IFRI is comprised of four components: content, timeliness, technology, and user support. Calculation is done for IFRI summation and weighting according the following formula:

$$IFRI = \left(\frac{cont}{44} x40\%\right) + \left(\frac{time}{10} x20\%\right) + \left(\frac{tech}{11} x20\%\right) + \left(\frac{user}{9} x20\%\right) \quad \text{..... Eq. 2}$$

Corporate Governance (CG)

Index of Corporate Governance (CG) is measured from the four components measured by the total number of index shareholder rights, corporate governance policies, corporate governance practices, disclosures, and audit according to the index compiled by FCGI. CG index calculation is done by summing and weighting formula as follows:

$$CG = \left(\frac{SRight}{4} \times 20\%\right) + \left(\frac{CGPol}{5} \times 15\%\right) + \left(\frac{CGPcs}{5} \times 30\%\right) + \left(\frac{Disc}{5} \times 20\%\right) + \left(\frac{Aud}{4} \times 15\%\right) \quad \text{..... Eq. 3}$$

Annual Report Disclosure (Disc)

Disclosure index is measured by weighting the index number of the items used in the research instrument Botosan (1997). The instrument used Botosan a checklist consisting of 35 items and the total index of 100% (details of each component can be found in appendix 4). The following formula is used:

$$SDisc = \frac{BackG + 5Sum + NonFin + \Pr ojct + MDA}{35} \quad \text{..... Eq. 4}$$

Analysis of the data used in this study is multiple regressions, which connects between the independent variables with the dependent variable. Initial step analysis was conducted on the normality test, multicollinearity, and heteroscedasticity test, which is often called the classical assumption. After the classical assumption made, the next step is to perform statistical tests and hypothesis testing.

Results

This study uses data companies listed on the KOMPAS 100. Amount of sample can be processed by 64 companies. This screening process or elimination involves three stages: Companies without websites; Companies that do not return questionnaires corporate governance (CG), and the Company is included outlier.

This component consists of the IFRI content (cont), timeliness (time), technology (tech), and user support (user). Content component provides an overview of financial statement presentation forms via the Internet, timeliness component describes the level of renewal or updating of the information presented through the company website, describes the technology components of the completeness of analysis tools for unidentified investors, while the components describe the user support improved accessibility for investors in the company's web page . Figure 1 below shows that the value of the component IFRI dominated by technology. While the value of component content, timeliness, and user support is not too much different.

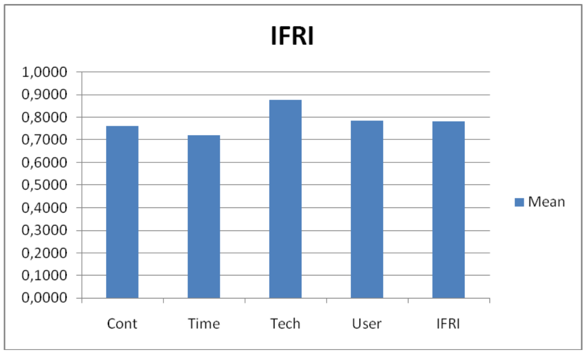

Fig. 1 Mean of IFRI components

CG assessment instrument consists of five components: shareholder rights (Srights) which measures the activity of the shareholders, CG policies (CGPol) which measures the rules or regulations in the implementation of CG, CG practices (CGPcs) which measures activity in the implementation of the rules of CG, disclosure (Disc) which measures the activity of corporate disclosure, and audit (Aud) which measures the activity of the audit Committee. The result shown by figure 2 indicates that the average sample firm provides impartial assessment activities in the company's CG.

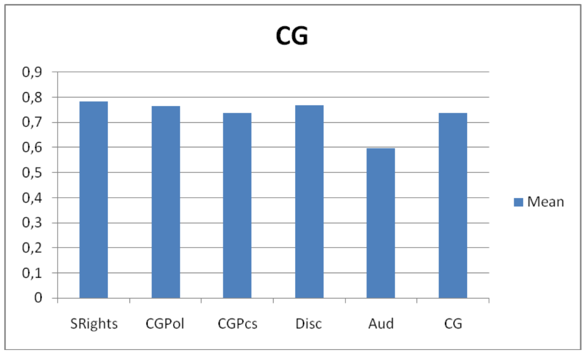

Fig. 2 Mean of CG components

In a research instrument Botosan (1997), the disclosure is divided into five sections: background information (BackG) public disclosure about the company, five year summary of historical results (5-Sum) the disclosure of financial data last five years, key non-financial statistics (NonFin) the disclosure of non-financial data company, projected information (projct) in the form of disclosure in corporate forecasting, and management discussion and analysis (MDA) in the form of disclosure in the form of change analysis. Of figure 3 shows that the result in disclosure of the annual report of MDA-dominated, because the items in the MDA component is an obligation that must be disclosed in accordance Kep-134/BL/2006.

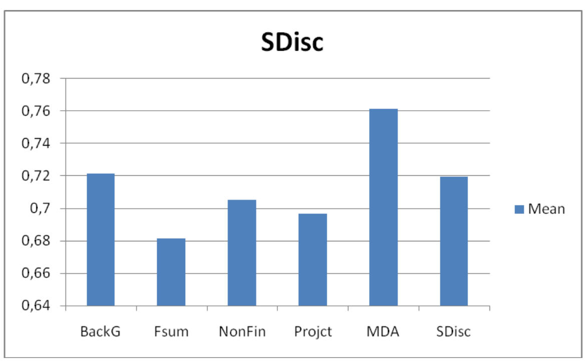

Fig. 3 Mean of SDisc components

The test results by using regression can be seen in Table 1 which shows that the first hypothesis (H1) is statistically acceptable. It means that corporate governance (CG) is significantly positive effect on the index of internet financial reporting (IFRI). The second hypothesis (H2) cannot be proven statistically. Disclosure of test results in an annual report (SDisc), showed significantly negative effect on IFRI. Although the effect on the IFRI, basically statistical results showed a marginal effect (marginally significant), because it is located at the tolerance limit of 10%

Table 1. The result of regression

Variabel	Prediction	Test result		
		Coefficient	Probability	
contant		0.7374	0.0006 ***	
CG	H1 (+)	0.4363	0.0132 ***	accepted
SDisc	H2 (+)	-0.2105	0.2078 *	rejected

* significant at 10%; ** significant at 5%; *** significant at 1%

Discussion

Results of the testing showed that the Corporate Governance (CG) has a positive effect on the index of internet financial reporting significantly. These results are consistent with agency theory, where the disclosure of the company via the Internet can reduce the agency problem. The fall issue of good CG proxy agency sample firms. Indirectly, these findings are consistent with the results of the study Abdelsalam et al. (2007), Abdelsalam and Street (2007), Ezat and El-Masry (2008), and Kelton and Yang (2008) who also proved the significance of CG over financial reporting internet.

These results may also indicate that companies with good CG, attention completeness of presentation of financial information via the website also strengthened, as a suggestion for corporate disclosure. Although there are no mandatory rules of Bapepam-LK, corporate websites remains to be seen as a media aide in reducing the speed issues in the disclosure of information. These results also reinforced the argument Hindi and Rich (2010) which states that in countries that have efficient capital markets, reliance will be too high tech, so that the website can be an important medium to deliver information without having to be required.

Testing of the second hypothesis is not consistent with predictions researchers, that the disclosure of financial statements a positive effect on financial reporting internet index significantly. The test results actually indicate a negative and marginally significant effect on IFRI. These results indicate that the more disclosure in the annual report the less disclosure through the company's website, and vice versa fewer disclosures in the annual report the more disclosure through the company's website. The results obtained in this test are different to what has been hypothesized. Here are some arguments why this second hypothesis test is not appropriate:

1) The capital market in Indonesia has not been efficient. Investors often use technical analysis than fundamental in analyzing the movements in the stock market. This does not provide benefits for companies to speed up the publication of information that is fundamental, particularly annual reports.
2) Indonesia does not have specific regulations that are binding or obligatory in disclosing financial reporting through the internet.

3) Possible companies in Indonesia are not too concerned with the development of the latest technologies for presentation of corporate information. This could be related to the cost of upgrading, website maintenance, or use of other technologies that are categorized as large.
4) The compilers of the financial statements and the company website designer done by different sections. Usually for financial reporting done by the finance and accounting section, while the design and maintenance of websites submitted to the IT department.

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