DOI <https://doi.org/10.18551/rjoas.2018-08.34>

STRUCTURE OF OWNERSHIP AND DISCLOSURE OF INTERNET FINANCIAL REPORTING

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ABSTRACT

This study aims to examine the ownership structure on the internet financial reporting disclosure level. The ownership structure used is managerial ownership and ownership concentration. In this study used control variables ie firm size and frequency of audit committee meetings. This research is conducted on the Bank listing on the Indonesia Stock Exchange. Research data obtained from BEI and website of each company. The results of this study indicate that management ownership negatively affects the disclosure of internet financial reporting, while the concentration of ownership is positively related. This study has limitations in website observation time that is only done in one month.

KEY WORDS

Managerial ownership, ownership concentration, internet financial, reporting disclosure.

Technology continues to experience the development and renewal continuously covering all aspects of life, especially in the world of communication and informatics. The amount of benefits offered make the demand for the development of information technology continues to increase. The Internet is one form of technological advancement, where the number of users continues to increase. Indonesia is a developing country experiencing rapid growth in the field of technology.

The development of this technology makes companies use technology in reporting and disclosure of financial information that exist on the company through the website of each company, or called the internet financial reporting (IFR). The company began to change from previously reporting traditionally to reporting paper less reporting, through internet financial reporting (Andrikopoulos et al., 2013; Ojah & Mokoaleli-Mokoteli, 2012). In the research of Kelton and Yang (2008), Khan & Ismail (2012) mentioned that the disclosure over the internet makes it easier for companies, in addition to the cost of disclosing financial information via the internet is much cheaper than the traditional disclosure with the use of paper.

Financial reporting and disclosure is a means of improving information asymmetry between managers and contracting parties with companies, including shareholders, creditors, suppliers, customers, and others (Ball, 2001).

Financial reporting through the internet is currently regulated by the government. The Government issues regulations requiring issuers or companies listing on the Indonesia Stock Exchange to have a website containing reports on financial statement information and disclosure. However, this government regulation only requires companies to have a website, this rule does not set the details or any items that must exist in the company website. Therefore, in this study used the level of IFR disclosure to assess how much the level of corporate financial internet reporting disclosure.

Research on internet financial reporting has been done a lot. Kelton and Yang (2008) examine the effect of corporate governance and internet financial reporting. Debreceeny, Gray, and Rahman (2003) examine the size of the firm, technology, and market value of the disclosure of internet financial reporting. Lai, Lin, Lee, and Wu (2007) examine how IFR's disclosure of stock prices. This research reveals that the stock price of companies that implement IFR is changing faster than companies that do not implement IFR. (Bozcuk, Aslan, & Burak Arzova, 2011) examines how internet financial reporting in Turkey. Miniaoui

and Oyelere (2013) examined that firm size measures of leverage, industrial sector and profitability are important factors in the disclosure of internet financial reporting. Dolinšek, Tominc, and Lutar Skerbinjek (2014) stated that the concentration of ownership, legal form and operation sector influenced the internet financial reporting disclosure, while profitability and age of the firm had no effect.

This study aims to examine the effect of ownership structure on internet financial reporting disclosure. The ownership structure used in this research is managerial ownership and ownership concentration. Managerial ownership is used to see whether the presence of management that owns shares in the company will make the level of disclosure voluntarily reduced, including the disclosure of internet financial reporting (Kelton & Yang, 2008; Mazzotta & Bronzetti, 2013; Puspitaningrum & Atmini, 2012).

The next variable is the concentration of ownership. The concentration of ownership is a company whose shares are concentrated or in other words, most of the shares of the company are owned by individuals or groups so that the owners of such capital have a considerable share in the disclosure of information (Lakhal, 2005; Nurunnabi & Alam Hossain, 2012).

This research also use control variable that is company size and frequency of audit committee meeting. Research on firm size on internet financial reporting has been widely used (Laswad, Fisher, & Oyelere, 2005; Pull, Zaimovic, & Fazlic, 2015; Yu, 2010). The size of the company is related to internet financial reporting. Large companies generally have a good reputation among the public, which is why big companies will give their information openly, especially if it is a positive information, the company will voluntarily disclose information, as well as the disclosure of internet financial reporting. The frequency of meetings of audit committees on financial information disclosure has been widely investigated. Kelton and Yang (2008) revealed that the purpose of the holding of the meeting is to deliberate the preparation of the drafting of financial statements and the application of internal control and good corporate governance. The frequency of meetings held by the audit committee positively affects the level of internal control and the effectiveness of management controls and affects the level of good corporate governance implementation.

This research uses agency theory as the basic theory of research. Agency theory is used because agency theory explains the gap between principal and agent, in this case between the company (agent) and the shareholder (principal) (Scott, 1997).

This research is conducted on the Bank listing on the Indonesia Stock Exchange. The research data can be obtained from the annual report on the Indonesia Stock Exchange and on each company website.

LITERATUR REVIEW AND HYPOTHESIS

Agency Theory. The relationship between management and the owner of a company is a paradigm of principal-agent relationship, and the owner of the company as principal gives trust (formally in the form of a contract of employment relationship) to the management that provides managerial services. In agency theory there are two parties who do the contract namely agent and principal. Each individual is assumed to be solely motivated by his or her own self-interest, thus creating a conflict of interest between principal and agent (Scott, 1997).

The difference of interest between principal and agent is called agency problem which one of them is caused by the existence of information asymmetry, that is unequal information caused by the unequal distribution of information between principal and agent (Nurunnabi & Alam Hossain, 2012; Laswad, Fisher, & Oyelere, 2005).

Managerial Ownership. Managerial ownership serves to align the interests of shareholders and managers, as this can reduce the controls exercised by shareholders (Kelton & Yang, 2008). According to Puspitaningrum and Atmini (2012) Managerial ownership, where management ranks also contribute in the interest of earning profit for themselves, can reduce information asymmetry between management and shareholders.

In firms with high managerial ownership, managerial manager costs are low because managers, also doubles as shareholders, imply low levels of monitoring. Therefore, managerial ownership reduces voluntary disclosure, including the disclosure of internet financial reporting (Mazzotta & Bronzetti, 2013). The more managerial ownership in a company the smaller the internet financial reporting disclosure. Based on the description, the first hypothesis in this study are:

H1: managerial ownership deals negatively with the disclosure of internet financial reporting.

Ownership Concentration. Stock ownership is said to be concentrated if the stocks in the company are owned by individuals or groups, making them the largest and dominant shareholder in the company compared to others (Dallas, 2004).

In a dispersed structure, there is a separation between ownership and control, this can increase the costs associated with agency relationships requiring greater information to increase transparency. In a concentrated structure, concentrated shareholders have access to the creation of relevant information to reduce information disclosure. In other words, concentration of ownership, aligning managers' interests and controls, reducing agency costs and reducing increased voluntary disclosure or in other words high concentration of ownership can lead to reduced voluntary disclosure, including the disclosure of internet financial reporting (Mazzotta & Bronzetti, 2013). Lakhal (2005) in his research reveals that the concentrated ownership that exists in the company, leads to a voluntary disclosure decline, this happens because as a controlling shareholder, concentration ownership has easier access to information than small shareholders. Firms with broadly owned holdings tend to disclose more information in internet financial statements than companies that have tight or concentrated ownership (Nurunnabi & Alam Hossain, 2012). Based on the description, the second hypothesis in this study are:

H2: the concentration of ownership is negatively related to the disclosure of internet financial reporting.

METHODS OF RESEARCH

This research is a quantitative research, which is done by multiple regression test to test the effect of managerial ownership and ownership concentration on internet financial reporting disclosure. This research data can be from each company's website as well as financial statements at Banks listing in Indonesia Stock Exchange in 2016. The research model in this study as follows:

$$IFR = \alpha + b_1MO + b_2OC + b_3FZ + b_4FR$$

Where:

IFR: Disclosure of internet financial reporting;

MO: Managerial ownership;

OC: Ownership concentration;

FZ: Firm size;

FR: Frequency of Audit Committee Meetings.

Internet financial reporting is measured using the IDI (Internet Disclosure Index) which refers to Kelton and Yang (2008) research using 36 items, with details of 12 item formats, 7 items of content and 17 items of presentation.

Information of items in the table above is accessed on the website of each company. If the company revealed then given a score of 1, if not then given a score of 0. After that in total each company revealed how many items. The total of the items is divided by the total indicator, which is 36 indicators, or with the formula as below:

$$IDI = \sum \text{score} / \sum \text{item}$$

Managerial ownership is owned by the management of the company, the board of directors and the board of commissioners. Managerial ownership is projected with the percentage of shares held by management within the company (Kelton & Yang, 2008; Mazzotta & Bronzetti, 2013; Puspitaningrum & Atmini, 2012).

The concentration of ownership is the largest share ownership in the company. The concentration of ownership in this study is measured by using the largest percentage of shares owned by the company (Lakhal, 2005; Mazzotta & Bronzetti, 2013).

Table 1 – Disclosure of Internet Financial Reporting

	Number	Disclosure Item
FORMAT	1	Annual report in multiple file formats
	2	Financial data in processable format
	3	Hyperlinked table of contents
	4	Drop-down navigational menu
	5	Hyperlinks inside the annual report
	6	Hyperlinks to data on a third-party's website
	7	Audio files
	8	Video files
	9	Email alerts
	10	Direct e-mail to investor relations
	11	Dynamic graphic images
	12	Internal search engines
ISI	1	Current year's annual report
	2	Last year's annual report
	3	Recent quarterly report
	4	Other filings
	5	Link to EDGAR or 10-K Wizard
	6	Charters for the audit committee
PENYAJIAN	7	Code of conduct and ethics for directors, officers and employees
	1	Members of the Board of Directors
	2	Recent monthly financial data
	3	Performance overview (e.g., highlights, fact-sheet, 'FAQ')
	4	Earnings estimates
	5	Calendar of events of interests to investors
	6	Recent financial news releases
	7	Listing of analysts following the firm
	8	Analyst ratings
	9	Text of speeches and presentations
	10	Same-day stock prices
	11	Historical stock prices
	12	Information about the firm's stock transfer agent
	13	The advantages of holding the firm's stock
	14	Information regarding a dividend reinvestment plan
	15	Dividend history
	16	Corporate governance principles/guidelines
	17	Charters for other committees

Source: Kelton and Yang (2008).

This research uses control variables that are company size and audit committee meeting frequency. Research on the size of the company to the disclosure of internet financial reporting has been done. Big companies in general have a good reputation among the public, that's what makes big companies will give their information openly, especially if it is a positive information, the company will voluntarily disclose the information, as well as the disclosure of internet financial reporting (Ojah & Mokoaleli-Mokoteli, 2012; Omran & Ramdhony, 2016; Pull et al., 2015). The size of the firm in this study is measured by the natural logarithm of the total assets of the company.

Research on the frequency of meetings of the audit committee on the disclosure of internet financial reporting has also been widely practiced. Kelton and Yang (2008) revealed that the purpose of the holding of the meeting is to deliberate the preparation of the drafting of financial statements and the application of internal control and good corporate governance. The frequency of meetings held by the audit committee positively affects the

level of internal control and the effectiveness of management controls and affects the level of implementation of good corporate governance (Puspitaningrum & Atmini, 2012). The frequency of the audit committee meetings is measured by the number of audit committee meetings in a year of management.

RESULTS AND DISCUSSION

Table 2 – Hypothesis Test Results

	Variable	Coefficient	Sig	Support
1	Managerial Ownership	-0,213	0,093	Yes
2	Ownership Concentration	0,002	0,975	No
3	Firm Size	0,027	0,009	No
4	Number of Audit Comittee Meeting	0,004	0,097	Yes

Source: data processed, (2018).

The purpose of this study is to examine the relationship between ownership structure and IFR disclosure by considering control variables. Based on the table of regression test results in the above table, it can be seen that significant managerial ownership of IFR disclosure, as seen from the significant value 0.093 greater than 0.05 ($0.093 > 0.05$). Coefficient value beta managerial ownership is -0.213 which means there is a negative relationship between managerial ownership with the disclosure of internet financial reporting. Thus the first hypothesis in this study that managerial ownership negatively affect the disclosure of internet financial reporting received. This is in line with Mazzotta and Bronzetti (2013) research which also states that managerial ownership is negatively related to the disclosure of internet financial reporting. With managerial ownership aligning interests between the principal and the agent, in this case between the manager and the shareholders, will have an impact on the low level of IFR disclosure.

The significant value at ownership concentration is 0.093 greater than 0.05 ($0.093 > 0.05$) this shows that there is a relationship between ownership concentration on internet financial reporting disclosure but beta coefficient value of ownership concentration is positive, so the second hypothesis is rejected, because in the second hypothesis mentioned that the concentration of ownership has a negative relationship with the disclosure of internet financial reporting, while the regression results show a positive relationship. This result is not in line with previous research. The ownership concentration is positively related to the disclosure of internet financial reporting because although the company's concentrated shareholdings the company will still disclose the company's IFR well, as it relates to the corporate good corporate governance.

In the control variables are firm size and frequency of meetings of the audit committee, only the frequency of meetings of the audit committee shows significant. This can be seen from the significant value of company size smaller than 0.05 that is 0.009 ($0.009 < 0.05$) indicating that the size of the company in this study has no effect in the disclosure of internet financial reporting. This is not in line with previous research that states that firm size affects the disclosure of internet financial reporting (Bozcuk, 2012; Mohamed & Basuony, 2014). The size of the company does not affect IFR's disclosure because either large or small companies will disclose the company's IFR as it relates to GCG as well as the company's reputation in the community. In the frequency control variables of the audit committee meeting affect the IFR disclosure, which appears from the significant value greater than 0.05 i.e. 0.097 ($0.097 > 0.05$).

CONCLUSION

This study aims to examine the effect of ownership structure on the disclosure of internet financial reporting. The ownership structure used in this research is managerial ownership and ownership concentration. From the results of hypothesis testing found that managerial ownership is negatively related to the disclosure of internet financial reporting.

The greater the amount of ownership of shares owned by management, it will reduce the level of IFR disclosure on the company website. Because management as share owners already know the information so that feel no need to do more voluntary disclosure. Furthermore, the concentration of ownership has no effect on IFR disclosure. This is because even if the company's share ownership is concentrated, the company will continue to disclose IFR's disclosure on the company's website, this is related to corporate governance as well as company reputation among the public.

This study contributes that companies should still consider IFR disclosure on the website especially in this era of technology. Limitations of this panelitian that is at the time of observation. Observations on the website is done only for 1 month. Future research is expected to observe the website in a longer period of time, as it may within a few months, the company's website undergoes several updates that will certainly produce different observation results.

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