Corporate Internet Reporting Within Malaysian Economic Sectors

SITI ZAIDAH TURMIN[a]*, FATIMA ABDUL HAMID[b] AND NAZLI ANUM MOHD GHAZALI[b]

[a]Department of Accounting and Finance, Universiti Putra Malaysia, Serdang, Selangor, Malaysia
[b]Department of Accounting, Kuliyyah of Economics and Management Science, International Islamic University Malaysia, Malaysia

ABSTRACT

Corporate Internet Reporting (CIR) is the communication process between corporation and stakeholders via the Internet medium. The Malaysian economy in 2015 was ranked 14th in the world and 5th in countries with a population exceeding 20 million, is one of the most competitive countries in the world. The use of CIR by Malaysian corporations in diverse economic sectors is considered as a precondition for success. This study looks into the elements of CIR practice by 310 publicly listed Malaysian corporations across various economic sectors. In addition, the influence drivers for CIR practiced by the corporations has also been examined. In measuring the level of CIR in use, this study has developed a CIR index with 41 attributes. Data was gathered for a period of three months and analysed using descriptive statistics and multiple regression method. The results revealed that the level of CIR practiced by Malaysian corporations varies across economic sectors, with certain sectors dominating the level of practice in specific CIR categories. Size, profitability and economic sector are significant in determining the CIR practice of corporations. Finally, the study contributes to the knowledge pertaining to CIR in Malaysia as it examines the actual level of CIR practiced by corporations in various economic sectors.

*Corresponding author: E-mail: zaidah@upm.edu.my

INTRODUCTION

Corporate Internet Reporting (CIR) is defined by Kerckhoven (2002) and Jones and Xiao (2004) as the reporting of traditional annual reports on the internet, consisting of additional financial and non-financial information that is often excluded from the printed form of company annual reports. Nowadays, the development of CIR is regarded as a universal process of institutionalisation, whereby companies from all over the world are distributing their corporate information through corporate websites (Kiew, Zakiah and Masoud, 2011). The significance of CIR in corporate activities is recognised by Carsberg (1999) through his statement, "technology has altered irreversibly not only the physical medium of corporate financial reporting but also its traditional boundaries. Paper reports are being supplemented, and for many users, replaced by electronic business reporting, primarily via the Internet." Compared to traditional paper-based reporting, CIR offers innovative presentation of information in dynamic multimedia formats, brings wider and easier access to information for larger groups of users, attracts potential investors, boosts corporate image, promotes timeliness, provides more interactive information with unlimited space and delivers faster information dissemination at lower costs. Due to these advantages, CIR is seen as an important avenue for the corporations in different economic sectors in Malaysia to present and disseminate corporate information to various groups of stakeholders.

As a developing country with an emerging market economy, it is vital for Malaysian corporations in various economic sectors to expand their global reach of the capital markets, as has been stated as one of the strategic objectives of Bursa Malaysia. As CIR is believed to provide a new medium for corporations to disseminate corporate information with a view to attracting a wider range of local and foreign investors, this study intends to provide an insight into the CIR usage by publicly listed corporations in various economic sectors in Malaysia.

This paper is organised as follows. The section above serves as the introduction. The next section briefly discusses the Malaysian economy and its economic sectors. Prior literatures is explained in the third section, followed by the research design, findings and discussion. The paper ends with a conclusion.

The Malaysian Economy

Malaysia is categorised as a highly open, upper-middle income economy. According to the 2008 Growth Report by the Commission on Growth and Development, Malaysia was among the 13 countries in the world that have recorded an average growth rate of more than seven per cent per year for a period of 25 years or more. In addition, the economic growth was inclusive as Malaysia has succeeded in nearly eradicating poverty, whereby the share of households living below the national poverty line has decreased from over 50 per cent in the 1960s to less than one per cent today

Malaysia is said to be one of the most prosperous emerging economies in Asia with strong economic growth (Nasruddin, Ainin and Suhana, 2014). Economic history shows that the Malaysian economy was dominated by the production of raw natural resources, such as tin and

rubber, in the 1970s. Today, Malaysia has a more diversified economy with eleven noted sectors of activity. Malaysia was affected by the Asian Financial Crisis during the period 1997 to 1998 and the Global Financial Crisis in 2009. This downturns resulted in reduced monetary growth and caused productivity growth to contract to 2.9% for the post-crisis period as compared to 5.5% for the pre- crisis period (Mazlina and Normaz Wana, 2015). Since then, Malaysia has recovered rapidly and continues to achieve solid growth rates with an average of 5.7 per cent growth since 2010. Malaysia has become a leading exporter of electrical appliances, electronic parts and components, palm oil and natural gas. In 2015, the Malaysian economy is seen as one of the most competitive in the world, ranked 14th in the world and the 5th for countries with a population of over 20 million. This ranking is higher than Australia, United Kingdom, South Korea and Japan. Furthermore, Malaysia is ranked as the 6th most attractive country for foreign investors, according to the Baseline Profitability Index.

The Malaysian economy encompasses 11 sectors that represent industrial product, consumer product, construction, trading and services, financial, properties, plantation, technology, mining, hotel and infrastructure. The industrial product sector is mostly contributed to by the electronics industry, the automotive industry and the construction industry. This sector accounted for 36.8 per cent of the national GDP in 2014 and employed 36 per cent of the labor force in 2012. The plantation sector is a minor sector that accounted for 7.1 per cent of GDP in 2014 and employed 11.1 per cent of the labour force. However, despite making a minor contribution in this sector, Malaysia has held a significant position as the world's largest exporter and the second largest producer of palm oil in 2012.

The Malaysian financial sector is made up by 27 commercial banks, 15 investment banks and 2 other financial institutions. In addition, Malaysia is the world's largest centre for Islamic finance with 16 full-fledged Islamic banks with total assets of USD168.4 billion. In the infrastructure sector, Malaysia is one of the most developed countries in Asia with expertise in facilities for energy, telecommunications, transport, networks, ports and specialised parks. The construction sector in Malaysia represents a large industry dominated by the construction of non-residential buildings, followed by the civil engineering subsector, residential buildings and special trades. The expansion of the construction sector in Malaysia is said to be influenced by the government's Economic Transformation Programme (ETP) and public-private partnership mega projects, such as Iskandar Malaysia.

LITERATURE REVIEW

Previous studies on CIR have primarily focused on CIR practices analysed by corporate sectors. Yap and Salleh (2011) interviewed senior managers in various corporate sectors to examine their views with regard to the corporate motivation for CIR. This encompassed the influence of firms' characteristics, corporate governance mechanisms and ownership structures on CIR in Malaysia. The results revealed that most of the respondents agreed that CIR offers easy access to firms' financial information and enhances disclosure speed. Website security, timeliness of reporting and the adoption of eXtensible Business Reporting Language (XBRL) were the significant elements highlighted by the respondents. Furthermore, the study found that the

three main motivation factors for corporations to engage in CIR were precipitated by the desire of these companies to be more transparent in disseminating corporate information, to create a strong brand name in the industry by promoting products and services, and to be known as companies that are strong believers of good corporate governance best practices in promoting greater transparency. The majority of the respondents stated that ownership structure, firm size and other industry members influence CIR, while only 34 per cent of respondents claimed that corporate governance influenced CIR.

Samaha, Dahawy and Abdel-Meguid (2012) investigated the impact of corporate governance on CIR practiced by the largest 100 companies listed on the Egyptian Stock Exchange. The results from the study using binary logistic regression method indicated that companies with greater ownership dispersion, managerial ownership, governmental ownership and board independence are more likely to adopt CIR. The finding also showed that companies with greater ownership dispersion, governmental ownership and board independence are more likely to engage in a more comprehensive CIR.

Mohd Noor Azli, Noor Azizi and Norhayati (2013) examined the perceptions of the firms as preparers of financial information in the Malaysian context, by using mailed questionnaires. Based on the response of 450 respondents, which included Chief Financial Officers (CFOs), finance managers and accountants, the study found that the main benefits of CIR to the firms are the ability to attract foreign and local investors, promote the company to a wider public audience, provide a wider coverage compared to the traditional form of annual reports, promote transparency, attract potential customers, discharge accountability and enhance managerial efficiency. In addition, the results found that respondents perceived global reach, mass communication, timeliness and the ability to update as the main advantages of CIR to the viewers.

Kamarul Baraini, Zaleha, Zakiah and Mohammat Sabri (2014) used William's taxonomy to investigate the disclosure strategies of CIR adopted by Malaysian publicly listed companies. Content analysis was performed on the corporate websites of two sample firms from the trading and service sectors. Qualitative data was analysed by using the Nvivo 7 software application. The results revealed that different disclosure strategies were used by the two firms in practising CIR, and the strategies adopted by them were to assist them in maximising the benefits from CIR. Specifically, one company adopted a corrective-preventive strategy, where they strictly adhered to their own internal policy to disclose a minimum amount of social, environmental or financial information to avoid complications. In contrast, the other company opted for an additive-preventive strategy to create the impression that the company is responsible, transparent and rational. This strategy included disclosing analyst reports, corporate social responsibility activities and future plans of the company.

RESEARCH DESIGN

This study examined 310 publicly listed Malaysian corporations that have corporate websites and are currently practicing CIR. Based on a systematic random sampling technique, sample companies were chosen from the complete list of publicly listed corporations listed on

Bursa Malaysia. The companies were from eleven different sectors, representing industrial product, consumer product, construction, trading and services, financial, properties, plantation, technology, mining, hotel and infrastructure. However, as the number of sample companies under hotel and infrastructure was too small (i.e. only two companies in each sector), these two sectors were coded as 'Others' for the purpose of this analysis.

To measure the practice of CIR by corporations in different economic sectors, this study has developed a CIR index that consists of 41 attributes. The attributes are further categorised into accounting and financial, investor relation, forward looking data, technological advantage and user support. As the Cronbach's alpha for the developed CIR index is 0.862, the internal consistency of the index is deemed good and acceptable. Attributes of the CIR index are depicted in Table 1.

Table 1 Corporate Internet Reporting (CIR) Attributes

A	**Accounting and Financial Information**
A1	Financial statement link OR Comprehensive set of financial statement on the corporate website.
B	**Information on Investor Relations**
B2	Name of investor relation officer
B3	Email address of the investor relations officer / department
B4	Telephone no. of the investor relations officer / department
B5	Postal address of the investor relations officer / department
B6	Availability to send messages from a web page within the company's or investor relations' website.
B7	English version of website
B8	Website in additional version
B9	English version of Annual Report
B10	Annual Report in additional language
B11	Current stock price
B12	Stock price history / performance
B13	General News
B14	Press Releases
B15	Frequently Asked Questions (FAQ)
B16	Video files of management presentation
B17	Video files of shareholders meeting
B18	Analyst report / link to analyst report
B19	Monthly / weekly sales or operation data
B20	CSR related / special page of CSR
B21	Latest information

Table 1 (Cont.)

C	**Forward Looking Data**
C22	Future sales / earnings
C23	Future goal / plan
C24	Industry trend
C25	New product
D	**Technological Advancement**
D26	Annual Report in pdf format
D27	Financial data in processable format
D28	Printable Balance Sheet and Profit and Loss account
D29	Email alerts
D30	Webcast / video files
D31	Replays
D32	Multiple formats of downloaded data
D33	Boundaries
D34	Site map
D35	E-commerce
D36	Slide show
E	**User Support**
E37	External search engine
E38	Possibility of other calculation
E39	Three clicks to access Annual Report
E40	One click to access the investor relation's page
E41	Internal search engine

Data pertaining to CIR practice was collected by examining the presence of each of the CIR attributes. A score of one (1) is assigned for every CIR attribute practiced in each corporate website and a score of zero (0) if otherwise. The CIR level of practice by the corporation was measured by the dividing the CIR score of the corporation over the total CIR score. Data was gathered from the corporate websites from December 2008 to February 2009, and analysed using the descriptive statistics analysis that focuses on the central tendency of mean.

In examining the influences and drivers of CIR practice, data for eight corporate characteristics, namely company size, liquidity, profitability, leverage, activity sector, audit type, ownership structure and independent directors was collected through Datastream. Data was then analysed using stepwise multiple regression. The study developed the following multiple regression model.

$$Y = \alpha + \beta_1[SIZE] + \beta_2[LIQUID] + \beta_3[PROFIT] + \beta_4[LEV] + \beta_{5\text{-}12}[SECTOR] + \beta_{13}[AUDIT] + \beta_{14}[IND\_DIR] + \beta_{15}[OWNERSHIP] + \mu$$

Where;

Y	= level of CIR practiced by listed companies in Malaysia
α	= the constant of the equation
SIZE	= size of company
LIQUID	= liquidity of company
PROFIT	= profitability
LEV	= leverage
SECTOR	= activity sector
AUDIT	= auditor type
IND_DIR	= proportion of independent directors
OWNERSHIP	= ownership structure
μ	= error term

FINDINGS AND DISCUSSION

Descriptive analysis was done by specific categories on the extent of CIR practiced by individual economic sectors in Malaysia. The mean statistics showed that the CIR scores for each category were dominated by different sectors. For example, the Plantation sector showed the highest CIR score in Investor Relations (mean = 0.415) and User Support (mean = 0.580). The Finance sector scored highest in Accounting and Finance (mean = 0.833) and Technological Advancement (mean = 0.288). The construction sector topped the CIR score for Forward Looking Data with a mean of 0.117.

Meanwhile, the lowest overall CIR score was noted in the Industrial Products sector, with a mean of 0.253. This sector also showed the lowest CIR scores in Investor Relations (mean = 0.298) and Technological Advancement (mean = 0.162). The lowest CIR scores in Forward Looking Data (mean = 0) and User Support (mean = 0.3) were noted in the Others sector, which represented the hotel and infrastructure sectors. The Consumer Products sector showed the lowest score in Accounting and Finance with a mean of 0.375.

The different results yielded by individual economic sectors in different CIR categories can be explained by various factors. In the Plantation sector, corporations are mostly involved in exporting products. According to Basiron (2009), the future direction of these corporations is heavily dependent on their trade relations with buyers around the world. The need to expand coincides with the benefits of CIR as a modern medium of corporate reporting that can attract a broader range of potential customers and provide an interactive two-way communication channel between corporations and investors. Therefore, firms in the Plantation sector are inclined to utilise more CIR, hence the evidence of the highest overall CIR score.

In 2001, the Malaysian government introduced the Financial Sector Master Plan that aimed at enabling resilient, efficient and competitive financial institutions. Many initiatives have been taken by financial corporations to increase their capability in meeting the growing demands of the economy and changes in economic requirements. These include the application of new technology to facilitate the development of new product and alternative delivery channels (Nasruddin *et al*., 2014). Zamani (2006) commented on the effort of corporations under this sector in establishing an information website to provide useful information and facilitate customers in conducting transactions. They also facilitate in migrating users from a paper-based to electronic payment systems by utilising the elements of technological advantages in their corporate websites. Hence our results showed high CIR scores by the Financial sector in relation to Accounting and Finance and Technological Advancement.

The industrial sector contributed the largest proportion of foreign direct investment in Malaysia, where non-resident direct investors from Singapore, US and Japan hold at least ten per cent of total equity in a resident company in Malaysia (Masud, Mohd. Yusoff, Abd. Hamid and Yahaya, 2008). Industrial companies in Malaysia are production-based and controlled by companies in their investors' home countries. CIR is more actively practiced by companies in their home countries, hence it is less evident of its use in companies operating in Malaysia. Compared to other sectors, the Industrial sector in Malaysia reported the lowest CIR practice.

The Industrial Product sector is recognised as the fastest growing sector in Malaysia, with a continuous positive growth that can be attributed to the robust performance in export-oriented industries and resource-based industries. By implementing the Industrial Master Plan (IMP), the government provides a framework to establish a strong foundation for a sustained growth in this sector. Tariff reductions, elimination of import duties, quantitative restrictions and the removal of non-trade barriers are further promoted with the establishment of the ASEAN Free Trade Area (AFTA). Danavaindran (2005) reported that industrial product companies have a wider market with the increase in import and export activities. Raj (2008) argued that the Malaysian consumer sector is a buoyant sector with relatively strong sales and earnings despite the high inflation and other changes in economic situation. Customer loyalty is supported by the strong branding and good market positioning practiced by the industrial product companies. Investors and shareholders are equally attracted by the dividends offered. The advantages in the consumer market may give less emphasis to the need for CIR as a tool of market expansion. This justifies the low overall CIR score, and the low means that were also reported in Investor Relation and Technological Advantage. On the other hand, the Consumer Product sector reported the lowest mean in Accounting and Finance.

The construction sector scored highest in Forward Looking Data, driven by the need to promote existing and future projects to potential buyers and investors. The low scores in Forward Looking Data, Technological Advantage and User Support among the hotel and infrastructure hotel sectors could be as a result of the small number of firms involved in the sample for analysis. A detailed report of the results is provided in Table 2.

Table 2 Means of the Extent of CIR based on Industry Type

Mean/industry	Overall Score	Accounting & Finance	Investor Relation	Forward Looking	Tech. Adv	User Support
Industrial (n= 86)	*0.253*	0.384	*0.298*	0.020	*0.162*	0.412
Consumer (n= 40)	0.274	*0.375*	0.328	0.056	0.177	0.430
Trading & Services (n= 61)	0.308	0.557	0.357	0.025	0.225	0.472
Properties (n= 30)	0.334	0.633	0.368	0.083	0.273	0.473
Plantation (n= 10)	**0.371**	0.800	0.415	0.050	0.273	**0.580**
Technology (n= 52)	0.278	0.442	0.322	0.058	0.184	0.450
Finance (n= 12)	0.337	**0.833**	0.350	0.021	**0.288**	0.550
Construction (n= 15)	0.314	0.533	0.353	**0.117**	0.200	0.520
Others (n= 4)	0.299	0.500	0.375	*0*	0.250	*0.300*

Note: • The value in bold is the highest disclosure mean.
  • The value in bold italics is the lowest disclosure mean.
  • Others refer to hotel and infrastructure companies.

The regression analysis conducted revealed the adjusted R^2 of 0.161, thus indicating that the regression model is able to explain 16.1% of the association between the extent of CIR and its influencing drivers. Furthermore, the F value of 20.731 with a significance level of 0.00 proved the significance of the overall regression model. Specific tests for the regression model which included normality, linearity, multicollinearity, homoscedasticity and independence of error implied that all these basic assumptions were been met prior to running the regression model.

The findings from the regression analysis showed that size and profitability of companies were positively and statistically significant in influencing the practice of CIR by the corporations. This means that an increase in company size and profitability will contribute to an increase in the extent of CIR. On the other hand, for the influencing driver of the economic sector, only the industrial products sector was found to be statistically significant, but negatively so. This implies that corporations from the industrial products sector have a low level of CIR practice, thus confirmed the descriptive results of the lowest mean of CIR extent for corporations in this economic sector, as presented earlier in Table 2. Other factors represented in the regression model were not significant. A detailed report of the results is provided in Table 3 (Panel A&B).

Table 3 Panel A Multiple Regression for the CIR Influencing Drivers
Method Stepwise

Independent Variable	Non- standard Coefficient	Std. Error	t-Statistic	Sig.T	VIF
Constant	0.302	0.008	36.631	0.000	
Size	0.037	0.007	5.180	0.000	1.023
Profitability	0.031	0.007	4.301	0.000	1.017
Economic sector-Ind	-0.045	0.016	-2.854	0.005	1.006
Dependent variable: Overall CIR score					
Explanation of the model:		Significance of the model:			
$R^2 = 0.169$		F value = 20.731			
Adjusted $R^2 = 0.161$		Significance = 0.000			
Durbin Watson test = 2.189					

Table 3 Panel B Excluded Variables in Stepwise Regression Analysis

Variables	t	Sig.	VIF
Liquidity	0.597	0.551	1.169
Leverage	0.545	0.586	1.142
Economic Sector- Properties	0.200	0.842	1.096
Economic Sector-Technology	1.906	0.058	1.567
Economic Sector-Consumer Product	-1.734	0.084	1.074
Economic Sector-Trading & Services	-0.540	0.590	1.125
Economic Sector-Construction	0.215	0.830	1.037
Economic Sector-Plantation	0.620	0.536	1.044
Economic Sector-Finance	0.016	0.987	1.086
Independent Directors	-0.120	0.904	1.025
Ownership Structure	-1.111	0.268	1.084
Auditor Type	0.291	0.772	1.135

CONCLUSION

Malaysia is a developing country with an emerging market economy. In order to expand the global reach of the capital market, there is a need to raise capital, attract investment and boost the confidence of investors. To achieve this goal, it is vital for Malaysian corporations from the various economic sectors to provide fair, efficient and transparent corporate information. CIR is regarded as a new corporate reporting medium that offers many advantages to corporations, as well as to users, enabling access to corporate information. It provides an avenue for corporations to disseminate corporate information and attract a wider range of local and foreign investors. Therefore, it is highly recommended for corporations to improve the level of CIR practice, which includes increasing timeliness of information and the utilisation of technologically advantageous features of the CIR. This is to ensure that the theoretical aspiration of the CIR in offering advantages to Malaysian corporations is achieved, where it can contribute to the increase of income generation in various economic sectors.

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