

# Web Financial Reporting In Malaysia: The Current Stage

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## ABSTRACT

*There is an obvious trend of increase in the number of companies having websites around the world. In addition to sales and customer service materials, a growing percentage of those companies are placing business reporting information, including financial data, on their sites. It shows that there is a development in corporate online financial reporting. The Web-based reports have great potential to be more than electronic versions of conventional paper reports. The question is whether firms actually take the opportunity to reap those benefits by being in higher stages of web financial reporting. There are three stages of Web financial reporting; stage 1 – duplicates the printed financial statements in “electronic paper”; stage 2 – uses HTML formatting and permits data downloading; stage 3 – uses enhancements that cannot be incorporated in printed documents. Accordingly, this paper tries to discuss the preliminary result of Web financial reporting by identifying the current stages of web financial reporting in Malaysia. Comparisons are made with prior studies in Malaysia to study whether there are improvements in listed firms’ practices.*

*Keyword: Web financial reporting, Internet, stage of development, voluntary disclosure*

## 1.0 INTRODUCTION

### Background

There is an obvious trend of increase in the number of companies having websites around the world. A growing percentage of those companies are placing business reporting information, including financial data, on their sites as an addition to sales and customer service materials. It shows that there is a development in corporate online financial reporting. The Web-based reports have great potential to be more than simply an electronic version of traditional paper reports. It also represents a totally new reporting environment, with many implications for both the content and form of corporate report.

In Malaysia, this phenomenon is still considered new and on a voluntary basis. Thus, companies are free to determine content and presentation of internet financial reporting (Rosli et al, 200). Therefore, the level of internet financial reporting in Malaysia varies between companies. In fact, prior studies notified that only a small number of companies utilised these sophisticated technologies in presenting their financial information (Noor Azizi and Mahamad, 2000; Rosli et al, 200). Corresponding to that, the government of Malaysia plays an active role to encourage companies to disseminate their financial information via the internet. There are few relevant cyber laws enforced by the government, such as

Digital Signature Act 1997, Communication and Multimedia Act 1988, Copyright (Amendment) Act 1997 and Computer Crime Act 1997, to create confidence and secure business environment to both companies and societies (Rosli et al, 2003).

After several years from the last study, is there an increase in web financial reporting among Malaysian firms? Which type of business use the most of this technology? Specifically which stage of internet reporting development are the firms currently in?

### Objectives of the Study

The objectives of this study are to:

1. Investigate whether there are differences in website existence and web financial report existence across Bursa Malaysia boards and industries.
2. Classify the stage of web financial reporting as currently practiced by the listed companies.
3. Identify whether voluntary disclosure of financial reports in website differs from compulsory disclosure of financial reports in Bursa Malaysia (BM) website.

### Significance of the Study

Previous studies on internet financial reporting in Malaysia more concentrated on contents and disclosures of financial information on the internet (Rosli et al, 2003; Jamaliah et al, 2001; Noor Azizi and Mahamad, 2000; Salleh et al, 1999). This study tries to categorise the contents and disclosures of financial information on the internet to three stages of reporting; stage 1 – duplicates the printed financial statements in “electronic paper”; stage 2 – uses HTML formatting and permits data downloading; stage 3 – uses enhancements that cannot be incorporated in printed documents. Therefore, the results of this study will potentially provide an overview of internet financial reporting stages in Malaysia.

## 2.0 LITERATURE REVIEW

### Why report financial information on the internet?

A few potential benefits of disseminating financial information on internet were highlighted (Ashbaugh et al, 1999). By using internet as a medium of disseminating financial information, firms can reduce their information dissemination costs. If the decision makers obtain financial information using company’s website, the company can avoid the printing and distribution costs associated with mailing annual and quarterly reports to such information users. Internet

financial reporting can also be a vehicle for company to communicate financial information with previously unidentifiable information users. Traditionally, financial reporting is restricted to the interested parties who have requested or are required to receive financial report. Once a company sets up a web site and engages in internet financial reporting, financial information can be access widely and unrestrictedly. Thus, by involving in internet financial reporting, company can widen their disclosure viewers. Furthermore, internet financial reporting also can facilitate the dissemination of firm's financial disclosures via internet tools. Internet financial reporting also can improve firm's financial disclosure by supplementing firm's traditional information dissemination practices. Finally, internet financial reporting potentially allows firms to increase their financial disclosures if firms disclose disaggregated and incremental financial data in their web sites.

The advantages offer by internet financial reporting contributes to the increasing numbers of companies engage in internet financial reporting. A firm is defined as practicing internet financial reporting when it provides in its website either: a) a comprehensive set of financial statements; b) a link to its annual report elsewhere on the internet; or c) a link to the U.S Security and Exchange Commissions Electronic Data Gathering, Analysis and Retrieval System (Ashbaugh et al, 1999). For the purpose of this research, instead of c), the company that have a link to the BM website, is considered committed to internet financial reporting.

### **Web Financial Reporting Practices**

Previous study noted that there is a variation in firms' financial disclosure using an internet for disseminating financial information (Ashbaugh et al, 1999). Their study among US firms found that 30% of the firms did not disclose financial data or disclosed only condensed financial data, whereas 70% of the firms participate in internet financial reporting by presenting in their websites a comprehensive set of financial statements. Other study (Wildstrom 1997) that surveyed US 'high performance' companies on the Business Week 50 list found that 80% of the companies offered some financial data but only 20% of the companies provided a complete annual report. In addition, the result of study by Marston and Leow (1998) showed that only 63 of the FTSE-100 companies in UK had websites. However, only 45 companies disclosed their financial information on their websites. Of these 45 companies, 34 disclosed detailed annual reports and 11 disclosed only parts or summaries of their annual reports. These studies clearly prove that there is a variation in internet financial reporting disclosure.

In Malaysia, the same phenomenon can be observed. Study by Noor Azizi and Mahamad (1999) found 25 out of 218 companies which linked their websites to

Kuala Lumpur Stock Exchange (KLSE, now known as Bursa Malaysia) website, disclosed their full annual reports on their websites. Lymer et al (2000)'s study found only 26 percent of 30 selected Malaysian companies practiced web financial reporting. Study in 2003 by Rosli et al indicated that there is an increasing number of companies published their financial statements on their websites. The study showed that 122 out of 236 companies with link to the KLSE website disclosed their financial statements on their websites. In addition, a number of prior studies have been conducted to explain the extent of internet financial reporting by companies. Nik Mohamad Zaki and Amdan (2000) found that 85 percent main board companies from the Consumer sector had websites with 35 of them disclosing financial information.

Disclosure of financial information on internet across industrial type and listing status was compared (Noor Azizi and Mahamad et al, 2000). Their study concluded that financial highlight and interim reporting are related to both listing status and industrial type. The study also found that the disclosure of financial statement indicated the effect of listing status and industry types to internet disclosure. Study by Jamilah et al (2001) revealed that mandatory reporting disclosure is relatively higher than voluntary disclosure. In contrast, study by Salleh et al (1999) concluded that firms' size and profitability are important factors influencing disclosure of financial information on company websites.

### **Stages of Web Financial Reporting**

Internet financial reporting can be classified into three stages (Debreceeny et al, 1999). Stage 1 is actually a start of internet financial reporting. In Stage 1, the printed financial statements are turned into "electronic paper" and published on the Web. The "electronic" financial statement has familiar look of printed report. It is an inexpensive and straightforward process. The "electronic" financial statement in this stage cannot be indexed in search engine. Furthermore there are no hyperlinks available. When company moves ahead to Stage 2 in internet financial reporting, it uses HTML formatting and data downloading. In this stage, the financial reporting can hyperlink to other parts of company website. It can also be indexed in search engines. This indicates that the company is serious about using internet as an information distribution medium. The disadvantage of being in this stage is the graphic files not automatically saved when HTML page is saved. The user also can get lost in hyperspace while browsing in the company website. The company moves beyond the printed-document paradigm when it reports its financial information at Stage 3. In Stage 3, the company uses enhancements that cannot be incorporated in printed documents. It provides alternative ways to present complex information. Besides, it may require plug-ins for some

enhancements. Furthermore it is also may lead to information overload.

**3.0 RESEARCH METHODOLOGY**

**Definition of Terms**

This study adapts Ashbaugh et al (1999)’s definition of internet financial reporting. A company is considered as practicing web financial reporting when the company, in its website, provides a) a comprehensive set of financial statements; b) a link to its annual report elsewhere on the internet; or c) a link to the BM website.

Web financial reporting stages are defined by Debreceeny et al (1999) as mentioned in the previous part.

**Data Collection**

The study is conducted on the entire companies listed in the three boards of Bursa Malaysia. The three boards are the main board, the second board and the Mesdaq Market. Each company’s data will be collected and no sampling is done. The population frame consists of companies listed on BM as at 31 March 2004. The reason for conducting a population study is to find the exact proportion of listed companies with web financial reports.

This study is divided into two phases. In the first phase, company information is obtained from BM website. The financial report and link to each company’s website are searched. The search for company websites and web financial reports is conducted in the second phase.

BM website provides links to websites of some listed company. If no link or erroneous link is found for a

particular company, the company’s name is inserted as a search term in Yahoo search engine. Where the search engine produces no results that link to the company’s website, it is considered that the company does not maintain any website. Where the results link to a website of an associated company, the website is browsed to find if there are several pages dedicated to the company in question. A company is considered as not maintaining its website when the website only mentions the name of the company and lack dedicated pages on it. The existence of any type of web assurance is recorded.

After successfully finding and accessing a company’s website, its financial report is sought after. A company is considered as having a web financial report if the condition defined by Ashbaugh et al (1999) is met. The nature of the financial report is recorded, which includes the file formatting and the number of years disclosed.

**4.0 FINDINGS AND DISCUSSIONS**

**Company Profiles**

As at 31 March 2004, 923 companies are listed in Bursa Malaysia. The largest portion of companies are in the first board, with the number of 594 companies representing 64.4 percent of all listed companies. 31.4 and 4.2 percent of companies are listed in each of second board and Mesdaq market respectively. Major portions of main board and second board companies are in the industrial products and trading/services industries. 36 companies with financial difficulty had been taken out from the industries and listed under PN4 condition. The exact figures are shown in Figure 1.

	Board			
	Main board	Second board	Mesdaq	Total
Technology	15	5	0	20
Consumer Products	68	60	0	128
Industrial Products	124	135	0	259
Construction	40	17	0	57
Trading/Services	121	53	0	174
Finance	54	0	0	54
Infrastructure Project Companies	8	0	0	8
Hotel	6	0	0	6
Properties	92	2	0	94
Plantation	38	4	0	42
Mining	3	0	0	3
Trusts	2	0	0	2
Closed-end Funds	1	0	0	1
PN4 Condition	22	14	0	36
Mesdaq Market	0	0	39	39
Total	594	290	39	923
	64.4%	31.4%	4.2%	100.0%

**Figure 1: Distribution of Companies across Boards and Industries**

**Website and Web Financial Reporting Existence across Board and Industry**

Figure 2 shows website existence across the three boards. In total, 50.9 percent, or barely half of the

listed companies maintain accessible websites. While 28.9 percent companies have web financial reporting, 22 percent do not have financial reports in their websites. The remaining half companies, 49.1 percent, have no or inaccessible websites. This is an improvement from studies by Noor Azizi and Mahamad et al (2000), Lymer (2000), Salleh et al (2001) and (Rosli et al (2003); where they found 31.6, 43, 26.3 and 27 percent companies have accessible websites. Besides a genuine increase, the percentage increase in this study is helped by finding company websites through use of a search engine, as oppose to just relying on the links provided by BM website.

The Mesdaq market has the highest percentage with a ratio of nine out of ten companies maintaining accessible websites. However, a majority (24 out of 35 companies with websites) do not include financial reports in their websites. The Mesdaq is only a two year old market, hence most of the companies listed there have yet to comply with Bursa Malaysia's recommendation. It is quite disturbing to note that more than half of second board companies do not have accessible websites. In addition, only about a third of the second board companies with websites, have web financial reports.

	No/inaccessible website	With website		Total
		Without financial reports	With financial reports	
Main board	285 48.0%	90 15.2%	219 36.9%	594 100.0%
Second board	164 56.6%	89 30.7%	37 12.8%	290 100.0%
Mesdaq	4 10.3%	24 61.5%	11 28.2%	39 100.0%
Total	453 49.1%	203 22.0%	267 28.9%	923 100.0%

Figure 2: Website and Web Financial Report Existence across Board

Figure 3 shows the website existence across industries. The technology and hotel sectors have the highest proportion of companies with accessible websites, with 17 out of 20 and 5 out of 6 respectively. Companies in the technology sector are expected to be the group of companies with the most comprehensive adoption of technology. This expectation is supported by this finding, at least with regard to the use of company websites. Furthermore, 15 out of 17 technology companies with websites included financial reports.

Companies in the hotel industry may have been extensive website users with the purpose of promoting their hotels to domestic travelers as well as foreign tourists. In addition to attracting customers, hotel companies also use website, to some extent, to convey information to investors. Three out of five hotel companies with websites display financial report.

Finance companies surpass the hotel industry in terms of web financial reporting, although not in overall existence of websites. Only two out of 34 finance companies do not include financial reports in their websites. Finance companies are a bit different from other sectors where a majority of their customers are also their investors. Hence finance companies may feel obliged to disclose their financial results on their websites. On the other extreme, none of the six companies in the mining, trusts and closed-end funds industry have websites. In addition, most (86.1 percent) financially distressed companies do not maintain accessible websites. It's an interesting question to ponder whether due to their financial problem that they would not put up websites; or their failure to use websites as an important marketing medium, contributed to their financial woes.

	No/inaccessible website	With Website		Total
		Without financial reports	With financial reports	
Technology	3 15.0%	2 10.0%	15 75.0%	20 100.0%
Consumer Products	65 50.8%	38 29.7%	25 19.5%	128 100.0%
Industrial Products	133 51.4%	69 26.6%	57 22.0%	259 100.0%

Construction	31 54.4%	7 12.3%	19 33.3%	57 100.0%
Trading/Services	76 43.7%	44 25.3%	54 31.0%	174 100.0%
Finance	18 33.3%	2 3.7%	34 63.0%	54 100.0%
Infrastructure Project Companies	3 37.5%	2 25.0%	3 37.5%	8 100.0%
Hotel	1 16.7%	2 33.3%	3 50.0%	6 100.0%
Properties	54 57.4%	9 9.6%	31 33.0%	94 100.0%
Plantation	28 66.7%	0 0.0%	14 33.3%	42 100.0%
Mining	3 100.0%	0 0.0%	0 0.0%	3 100.0%
Trusts	2 100.0%	0 0.0%	0 0.0%	2 100.0%
Closed-end Funds	1 100.0%	0 0.0%	0 0.0%	1 100.0%
PN4 Condition	31 86.1%	4 11.1%	1 2.8%	36 100.0%
Mesdaq Market	4 10.3%	24 61.5%	11 28.2%	39 100.0%
Total	453 49.1%	203 22.0%	267 28.9%	923 100.0%

Figure 3: Website and Web Financial Report Existence across Industries

**Stage of Web Financial Reporting**

Stages of web financial reporting as laid out by Debrecey et al (1999) relate closely to the format of the report. Specifically reports in the pdf formatting represents stage 1 while the html formatting represents stage 2. In stage 3, enhancement that cannot be incorporated in printed documents are used to display financial information. Therefore it is essential to record the formatting used for the web financial reports.

Medium	Frequency	Percentage
Pdf	208	77.9%
html	72	27.0%
gif	8	3.0%
flash	3	1.1%
jpeg	3	1.1%
excel	2	0.7%
bmp	1	0.4%

Figure 4: Different Financial Report Formats

There are several formats where digital financial reports may be stored and displayed in websites. Figure 4 shows those formats and the proportion of their use by companies. The most popular format is the Portable Document Format (pdf) where 77.9% of the financial-contained website use this format. This format is the easiest uneditable medium to use, as it can be produced instantly from either converting a word processing document or scanning a physical paper-form document. It seemed that most pdf files are scanned images of the annual reports the companies produce. Hence it is easy to produce with

full, exact contents as the paper annual reports. Therefore it is not surprising that three quarters of financial reports use this formatting.

The other quite popular format is the html (hyper text mark-up language). The production of html financial reports needs a much more effort, requiring some web publishing skill. However due to its more dynamic feature, such as index capability, hyperlinking, downloadable and “copy-paste” feature, some companies (27 percent of all websites with financial reports) go through the hassle to produce the financial reports in that form. Those special features allow users to put the data into electronic spreadsheets and perform numerous calculations for analysis. On the other hand, due to its nature of being more difficult to produce, most html reports do not contain full sets of financial reports.

Gif, jpeg and bmp formatting are image files. When they are used to display financial reports, the reports are static and very similar to the pdf formatting. One major weakness of this formatting is that it can only capture a single-page information, whereas a pdf file may store tens and hundreds of pages, limited only by the capacity of the storage device. Only eight, three and one websites use gif, jpeg and bmp to display their financial information. This may reflect the web owner’s opinion of the less usefulness of those types of formatting.

Two financial reports are displayed using excel formatting. This format is a spreadsheet document

that allows virtually limitless calculations to be performed. Thus it is very useful to users who like to perform their own analysis on the financial statements. On this respect, financial reports in the excel format may be regarded as a stage 2 web financial report. However, as excel files are opened in a separate program and not embedded in the web page, indexing is not possible. Converting printer-ready financial report into an excel file is cumbersome, and hence only two companies do so.

Flash formatting contains multimedia elements such as sound, pictures and animation. They display financial information in a more interactive manner. Hence, financial reports in flash formatting may be regarded as a stage 3 web reporting. However only three web sites with financial reports use the flash formatting. This is probably due to difficulty in producing the flash file, or web owners opinion of the lack of necessity, or their fear of lacking of user's browser's ability to handle flash documents.

	Number of web	Percentage from website with financials	Percentage from listed companies
Stage 1	191	71.5%	20.7%
Stage 2	73	27.3%	7.9%
Stage 3	3	1.1%	0.3%
Total	267	100.0%	28.9%

Figure 5: Stages of Web Financial Report

Looking at individual web sites with financial reports, Figure 5 is produced which identifies the number of companies in the respective stages. Three companies, representing 1.1 percent of companies with web financial reports, are in stage three. 73 (27.3 percent) are in stage two. The remaining 191 companies (71.5 percent) are in stage one. Therefore, in general slightly above a quarter of web financial reports have moved on two the second stage of, while almost three quarters are still in the first stage.

disclosure, the BM website, the study uses two indicators. The first indicator is the percentage of companies that posted their reports in those sites. The second indicator is the mean number of years data are disclosed.

	Number of companies	Percentage
Company website	267	28.9%
BM website	799	86.6%

Figure 6: Companies with financial reports in their websites or the BM website

When expressed as percentage of all listed companies, 20.7 percent companies are in stage one of web financial reporting. 7.9 percent companies are in stage two, and 0.3 percent are in stage three.

Figure 6 shows a large difference in the number of companies posting their reports in their own websites with the number of companies posting their reports in BM website. The figures indicate that mandatory disclosure is about three-folds higher than voluntary disclosure.

**Voluntary Disclosure versus Mandatory Disclosure of Web Financial Reports**

In identifying the difference between voluntary disclosure, in company website, and mandatory

	Number of years financials disclosed in company web	Number of years financials disclosed in BM web
Mean	3.2097	3.5657
Median	3.0000	4.0000
Mode	1.00	4.00
Std. Deviation	2.34301	1.12741
Minimum	1.00	1.00
Maximum	17.00	7.00

Figure 7: Descriptive statistics of number of years financial reports are disclosed

Referring to Figure 7, all alternative measures show that there is higher average number of years reports are disclosed in BM website than in companies' websites. The mean number of years are 3.57 for BM website and 3.21 for company web. The median number of years are 4 for BM website and 3 for company web. The mode number of years are 4.0 for BM website and 1.0 for company web. However there are two particular companies that maintain an archive of 17 years of financial reports in their

websites. But these two do not represent the other 921 companies.

Hence it is clearly evident that mandatory disclosure of web financial reports is much more complied by companies than voluntary disclosure. This may suggest that in general companies practice web financial reporting merely for compliance, rather than strategic purposes. This is not so surprising as Bursa Malaysia have a rule where penalties, ranging from

the company being sent caution letters to the company being de-listed, will be imposed any company that does not submit the soft copy financial report for inclusion in the BM website (Salleh et al, 2001).

## 5.0 CONCLUSION

The use of web financial reporting promises great potential benefits to its adopters. The benefits include reduced costs, wider scope of financial users, easier access to users via Internet tools and increased detail in information disclosure, to name a few. Previous study on Malaysian firms however show that only few companies try to reap these benefits.

This study was conducted on the entire Malaysian stock market. It is found that although Mesdaq market companies are better adopters of websites, main board companies are better utilisers of website to disseminate financial information. However as Mesdaq market grows older, they may include more financial reports in their websites. Among the various industries, technology, hotel and finance industries are better adopters of web financial reporting.

Malaysian companies are still in the early stage of internet financial reporting. Only a quarter of the companies have moved on to the second stage. A higher stage of adoption promises a better utilisation of information technology by users to use financial reports in manners not possible with traditional paper-based reports. However this study is not in a position to verify that promise. A further study is recommended to identify whether users actually perform more powerful analysis on web reports of higher stages.

Users' use of web financial reports is one issue, but the producers of web financial reports are themselves not particularly confident of the potential benefits. This statement is suggested by the fact that voluntary disclosure of financial report on the web is far behind the mandatory disclosure as required by the regulators. Disclosure of financial reports in Bursa Malaysia web is three times that of those in the firms' websites.

Hence while the government is always proactive in providing the infrastructure and facility to propagate web financial reporting, researchers should conduct studies which will highlight more benefits reaped by web reporting adopters. Such significant benefits exists but companies must be convinced of their existence.

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