

ONLINE FINANCIAL REPORTING DISCLOSURE REQUIREMENTS ACROSS CENTRAL AND EASTERN EUROPEAN COUNTRIES

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Abstract: The business community has admitted that the accounting is “the language of business”. They are using the accounting to communicate the existence and the evolution of the financial situation and also of the performance for the economical entities. Financial information is a form of a language. The purpose of this paper is to investigate the various elements of financial reporting frameworks and practice in the context of the Internet. The Internet has emerged as a recent medium of presentation of corporate information in the United States, Germany, Great Britain, but also in the Central and Eastern European Countries. Actual disclosure by companies from CEE was investigated in order to compare de jure and the facto financial reporting disclosure.

Key words: financial reporting, Internet, disclosure, CEE countries

Introduction

In the modern business environment the objective of financial reporting is to assemble financial information useful for investors, information simplifying decisions related to investment and granting loans. In the last fifteen years, the Internet and applications of it have been increasingly widely employed in modern business operations. In developed countries, the Internet is used with increasing frequency for financial reporting. In our days, numerous Internet applications are successfully employed in business, such as e-commerce, Internet banking and advertising.

Currently, the levels of disclosure vary widely between companies within countries and on an international level, in relation to financial reporting disclosure on websites. Our intention in this empirical research is to identify the national and international regulatory frameworks that shed light on the minimum level of disclosure required of companies. Thus, the financial reporting elements were broadly classified as basic financial reporting elements such as financial reports, corporate social responsibility reporting elements, corporate governance elements and audit reports. A sample of the 10 largest listed companies, by market capitalization, was selected from each CEE country. The companies' websites were then investigated in relation to financial reporting disclosure on the Internet.

In the Czech Republic, Estonia, Hungary, Latvia, Lithuania and Poland all 10 of the companies surveyed in each country have an English language website. 94% of the 110 CEE companies surveyed have an English language website. 85% of the 110 CEE companies surveyed have either a 2004, 2005 or 2006 English language annual report online by April 15, 2007. In general, companies in the Czech Republic, Hungary, Poland and Slovenia disclose the most information online. Companies provide more information on corporate governance than on environmental or social policy. Also, corporate governance codes continue to significantly impact reporting on corporate governance issues in certain countries. Nine Polish, seven Czech and seven Slovene companies disclose implementation of a corporate governance code in their annual report.

In our study one reporting language, called the XBRL is also investigated. XBRL is short for eXtensible Business Reporting Language. It's an XML – based markup language developed for financial reporting. XBRL transforms financial information from blocks of text into interactive data by providing an identifying tag for each line item of data. Using tags, XBRL can be leveraged to facilitate better and faster financial analysis model building, and comparisons between companies and across borders.

The results of the empirical research carried out show that CEE largest listed companies have a lack of a uniform approach to financial reporting disclosure on the Internet. Financial reporting disclosure on the Internet ranges from none to extreme detail, including voluntary reporting disclosures for corporations on the Internet. Also it was found that XBRL reporting language used by CEE companies is at this point in time, in its experimental stage.

Literature review on financial reporting disclosure requirements

Adhikari and Tondkar (1992) identified the disclosure requirements of various countries. The hypotheses developed by Adhikari and Tondkar (1992) relevant in respect of this research included:

H1: In countries with higher GDP per capita, stock exchanges are likely to have more rigorous levels of disclosure requirements;

H5: In countries with greater number of domestic listed companies, stock exchanges are likely to have more rigorous disclosure requirements.

Their sample for the study was 41 stock exchanges, each located in a different country. Additional data were gathered from the International Financial Statistics, National Account Statistics and other sources for numeric data gathering.

Adhikari and Tondkar (1992) found that H1 emphasizing the relationship between the degree of economic development and the level of disclosure requirements was not supported. No significant relationship was found between the type of economy and the level of disclosure requirements. H5 stating that stock exchanges with more domestic listings would have more rigorous requirements was not supported by the results either. Also they found that the most disclosure required was by the New York Stock Exchange, followed by the London Stock Exchange, Singapore being in third place, followed by Toronto, Hong Kong and Japan, France, Kuala Lumpur, Amsterdam and finally Sydney. Frankfurt ranked even further down after Milan. Adhikari and Tondkar 's (1992) research may suggest that larger stock exchanges have more rigorous financial reporting disclosure requirements.

A research on the practical application of financial reporting on the Internet in individual countries was carried out in Sweden by Hedlin (1999), concluded that most of the Swedish corporations that are quoted on the Stockholm stock exchange do use Internet financial reporting. Similar research was carried out into quoted Spanish companies, in which it was shown that only 19% of the companies in the sample presented any extensive financial information on the Internet, according to Growthorpe and Amat (1999). Research done in Ireland in 1998 showed that 37% of quoted Irish companies published their financial reports on the Internet (Brennan and Hourigan, 1998). A recently research done by Pervan (2006) showed that twenty of the sample companies made use of Internet financial reporting and eighteen had no such practice. This investigation was carried out on a sample of 38 joint stock companies quoted on Croatian bourses, the shares of all of them being actively traded. Companies that use Internet financial reporting on the whole publish the annual reports together with the reports of their auditors. Empirical data showed that the firms that used Internet financial reporting were on the whole larger and more profitable and their shares were more active on the bourses than the shares of companies that had no such reporting practice.

Another approach in this research area is to discover what differences are in the financial reporting on the Internet of listed corporations from different countries. An example of such an investigation is the comparative research on the application of financial reporting on the Internet by American, British, and German quoted companies of Deller, Strubnrath and Webber (1999). The investigation showed that 91% of American, 72% of British and 71% of German corporations practiced Internet financial reporting. It was shown, also that only rarely in all three countries investigated was a format suitable for calculations used (7-13%).

Khan (2006) focused on the domestic regulatory requirements in relation to financial reporting in various countries. The requirements have been used as a benchmark for comparison. If sample companies have not met the disclosure requirements, then the concept of a gap between de jure and de facto financial reporting will be supported, in relation to financial reporting on the Internet. The regions covered in Khan's study included: high income countries, upper middle income countries, lower middle income countries, low income countries and other countries.

Khan (2006) used a sample of 177 companies selected from four sub-groups: hotels, diversified companies, multinational companies listed on the NYSE and multinational companies listed on the LSE. The

companies' websites were investigated in relation to financial reporting disclosure on the Internet. For companies that did not have their own primary websites, further investigation was carried out as to whether financial reporting information was provided on secondary websites. It was found that 82 companies had annual reports on their websites and 7 companies had interim results only. The financial reports of these companies were then studied in order to determine the nature and level of disclosure in relation to the financial reporting elements and disclosure scores were formulated. In relation to the adoption of the Internet for financial reporting purposes, it was found that 33 companies had no financial information on their websites and that 55 companies did not have annual reports online because they did not have websites. The research conducted indicates that only 67 percent of the companies with websites had some kind of financial information on their websites.

Theoretical grounds – Globalization and the Internet

According to Tomlinson (1999) globalization is a process in which complex interconnections are rapidly developing between societies, institutions, collectives and individuals world wide. Thus the reports provided by a Chinese company can be accessed by a user in another country. This is leading to better and more transparent reporting in order to attract capital.

Barr (2000) has described the Internet as a paradigm shift for communication. McMahon (2006) has suggested that this definition provided by Barr (2000) has come from Thomas Kuhn's work "The Structure of Scientific Revolutions" (1962). Kuhn (1962) has described paradigms as universally recognized scientific achievements that for a time provide idealistic problems and solutions to a community of practitioners. McMahon (2006) has claimed the Internet to be "the greatest surveillance tool known". In his study McMahon (2006) has extended this concept to consider the affect of the Internet as a surveillance tool in countries like China, which are based on the Confucian system. In these countries the individual is strongly a part of the system, the family and the nation. This impacts the company as well, since these companies were owned by the government not long ago. As results of the privatization process and the listing on the stock exchange locally and internationally, the reporting requirements of these companies have changed as well. There are more stakeholders interested nationally and on a global scale.

McMahon (2006) has pointed out that in such countries the government has maintained power by controlling what information is released to the public. But with the introduction of mediums like the Internet this control is diminishing and globalization is coming into play in these countries as well.

According to the modern framework, the objective of financial reporting is to supply useful information to stakeholders. Financial reporting as understood in this paper implies the creation and presentation of accounting information useful to stakeholders. It is well known that accounting information is contained in financial reports that have to be prepared according to a national or international conceptual framework. For the current age is characterized by the globalization of economies and the increasingly liberal flows of people, goods, and capital, financial reporting takes on a new dimension, and is gradually become the language of global business. In this context it is realistic to expect a growth in all Internet based business applications as well. Corporations may, if they want, publish their financial reports on the Internet and thus make them easily accessible to a large number of users, all around the world. If the financial reports are Internet published, users can find them fairly simply and rapidly if they know the URL. But even if they do not know the exact address, they can search for the financial reports that interest them with the help of various Internet search engines.

Webster (2002) has mentioned the concept of "Globalization of Communications" and had described it like a phenomenon as supportive as well as contradictory. He has expanded on this point by mentioning that the information provided by companies via mediums such as the Internet may have a negative consequence for the company. An example can be a news release that would negatively affect the share price of the firm. At the same time, mediums like the Internet are offering exposure of the company to many more audiences than was possible without the presence of the Internet. Webster (2002) further explains that globalization requires and at the same time enhances an "information infra-structure". According to this author following are the elements of this infra-structure:

- World-wide expansions of services that collect information, analyze and distribute it, and add value by analyzing and collating it.
- Globalization requires the construction and where necessary, enhancement of computer and communications technologies.

- This information structure has resulted in the growth of information flows at a quite extraordinary rate.

The point Weber (2002) has made is that technologies such as the Internet are supporting and are being supported by the globalization process. This exposes the company to a wider range of users, thereby increasing responsibility to provide quality information to not just one, but multiple sets of users.

Research methodology

In order to investigate the usage of corporate reporting on Internet by CEE countries, we explored the company websites selected by market capitalization in the PFS Program USAID. This PFS Program has done in February 2008 a Survey of Websites of the Largest Listed Companies in 11 CEE Countries. In most cases, the market capitalization statistics are dated December 31, 2007.

Table 1 CEE countries

<i>Bulgaria</i>	<i>Croatia</i>	<i>Czech Republic</i>	<i>Estonia</i>
<i>Hungary</i>	<i>Latvia</i>	<i>Lithuania</i>	<i>Poland</i>
<i>Romania</i>	<i>Slovakia</i>	<i>Slovenia</i>	

The survey analyzes information available on the company website and/or in an annual report available in electronic format on the company website. The record date for disclosures is February 15, 2008. This survey distinguishes whether the company provides information on management, management board members and board of directors/supervisory board members directly on the corporate website or indirectly, meaning that information is not found on a separate page of the company website but instead is noted in an annual report available in electronic format on the company website. The criteria for the survey were determined after analyzing best practice among blue-chip companies in the EU and internationally.

Table 2 List of Companies Surveyed – CEE Countries

Country	Companies
Bulgaria	Bulgarian Telecommunication, Chimimport, CB First Investment Bank, Sopharma, CB Bulgarian American Credit Bank, Druzha Staklarski Zavodi, CB Economic & Investment Bank, CB Central Cooperative Bank, Zarneni Hrani Bulgaria, Lead & Zinc Complex PLC-Kardzhali
Croatia	Zagrebacka banka, Privredna banka Zagreb, HT-hrvatske telekomunikacije, INA, Pliva farmaceutika, Erste&steiermarkische banka, Konzum, Adris grupa, Societe generale-splitska banka, Croatia osiguranje
Czech Republic	Cez, Erste Bank, Telefonica O2 Czech republic, Komerčni banka, Central European Media Enterprises, Unipetrol, Zentiva, ORCO Property Group, PRAZSKA Energetika Group, Philip Morris
Estonia	Eesti Telekom, Tallink Grupp, Olympic Entertainment Group, Tallinna Kaubamaja, Tallinna Vesi, Merko Ehitus, Silvano Fashion Group, Eesti Ehitus, Arco Vara AS, Saku Olletehase
Hungary	MOL, OTP, Magyar Telekom, richter, Orco Property Group, ELMU, TVK, Egis, FHB, Danubius
Latvia	DnB NORD Banka, Latvijas Gaze, Latvijas kugnieciba, Ventspils nafta, Liepajas metalurģs, Latvijas Krajbanka, Grindeks, Olainfarm, Valmieras stikla skiedra, Latvijas balzams
Lithuania	Lietuvos Energija, VST, Rytu slirstomieji tinklai, TEO LT, Lietuvos Dujos, Lifosa, DnB NORD bankas, Lietuvos Elektrine, Sanitas, Snoras
Poland	PKO Bank Polski, PKN Orlen, Bank PEKAO, KGHM Polska Miedz,

	Telekomunikacja Polska S.A., Bank Zachodni WBK, GTC, Polskie Gornictwo Naftowe I Gazownictwo, BRE Bank, Polimex-Mostostal
Romania	Petrom, BRD – Groupe Societe Generale, ALRO, Banca Transilvania, CNTEE Transelectrica, SIF Transilvania, SIF Oltenia, Rompetrol Group N.V., SIF Banat Crisana, SIF Muntenia
Slovenia	Krka, Petrol, Telekom Slovenije, SAVA, Mercator, Gorenje Group, Luka Koper, Pivovarna Lasko, Intereuropa, Istrabenz
Slovakia	Slovnaft, Tatra banka, Vseobecna uveroba banka, MATADOR, Dexia banka Slovensko, OTP Banka Slovensko, Tatravagonka, Smurfit Kappa Sturovo, SES Tlmace, Chemko Strazske

Our study is based on secondary data provided by the PFS Program in the survey, mentioned above, conducted in two phases. The aim of our research is to analyze the first phase of the survey that analyzed whether each of the companies included in the sample provided the following:

- A local-language website;
- An English-language website;
- A list of management and management board members available online;
- Additional information on management/management board members available online (brief biographical information about each member of management);
- A list of board of directors/supervisory board members online; and
- Additional information on board of directors/supervisory board members available online (brief biographical information about each member of the board).

Undoubtedly, Internet Financial Reporting will become increasingly popular worldwide. The IFR implementation by companies creates new challenges to management in charge of establishing the control framework and to internal auditors in charge of reviewing the controls. Lymer (1997) has argued that fulfilling the apparently straightforward model of IFR (companies provide, users use), in practice, leads to many complex issues in four aspects:

- What to report
- When to report
- How to report
- Who is responsible to report.

These are some main problems occur when such a study is done. Our research is oriented also, towards finding answers for the questions rose above.

The research findings are based on the search on company profile, the analyze of Reporting on Corporate Social Responsibility (CSR) by the largest listed companies in 11 CEE countries, and the data provided by the PFS Program surveys – Investor Relations Online and Reporting on CSR published annually. The PFS program surveys analyzed disclosure of Environmental, Social and Governance (ESG) data by listed companies in CEE in order to:

- enable these companies to benchmark their disclosure reporting against peers on a national and CEE regional basis;
- enable these companies to benchmark their disclosure against peers in other emerging markets;
- collect time series on CEE corporate disclosure that practitioners can use to chart progress and identify trends;
- collect time series on CEE corporate disclosure that researchers can use as control data or analyze in greater detail;
- identify best practice in the CEE region;

- report on the corporate disclosure practices of this CEE peer group to a wide range of constituencies;
- collect practical micro-economic data that can be presented at conferences, seminars and workshops;
- stimulate the writing of case studies about the disclosure practices of this peer group.

PFS Program Survey's Findings for the Ten Largest Listed Companies in 11 CEE Countries

On February 15, 2008 in nine of the sample CEE countries surveyed, each of the ten largest listed companies has a local-language website. In Bulgaria and Lithuania, nine of the ten companies surveyed have a local-language website. Each of the ten companies surveyed in Czech Republic, Estonia, Hungary, Latvia, Poland, Slovakia and Slovenia has an English-language website. 90% of the companies surveyed in Bulgaria and Lithuania have an English-language website. 80% of the companies in Croatia and Romania have an English-language website. The percentage of companies with an English-language website has remained relatively consistent for the past three surveys. It has increased steadily since the first survey was conducted in August 2001, when only 71% of the companies surveyed had an English-language website.

According to the conducted survey at the same time 90% of the 110 companies provide a list of management online and 63% provide additional information on management online. The best performers are Czech Republic, Estonia, Hungary, Latvia, Poland and Slovenia, where 100% of all companies surveyed provide a list of management online. Disclosure of additional information varies widely, ranging from a short biography, previous work experience and description of duties. Information available online about management increased significantly in comparison with the previous survey and all previous surveys. 87% of companies surveyed provide a list of board members online and 52% provide additional information on board members online. The best performers are: Hungary 100%, Czech Republic and Slovenia 90% and Estonia 80%.

As an important result of the survey mentioned above, 51 of the 110 companies from CEE provide information on all categories surveyed in the basic PFS Program: local-language website; English-language website; list of management, list of board members; additional information on management and additional information on board members. These 51 companies were analyzed further regarding the ideal website recommendations.

Companies from our sample that use Internet financial reporting on the whole publish the annual reports together with the reports of their auditors. In addition, most of the companies use the PDF format for the reports that they publish.

XBRL: Online Financial Reporting Language

XBRL is an extension of XML, which stands for Extensible Mark-up Language. Extensible is a useful feature that allows the user to use XML in more than one way. Mark-up means that XML gives definitions to text and symbols. Language implies that XML is a method of presenting information that has accepted rules and formats. XBRL is an open specification language for software that uses XML data tags to describe financial information for public and private companies and other organizations. It allows different parties to enhance the creation, exchange and comparison of business reporting information. Business reporting includes, but is not limited to, financial statements, financial information, non financial information and regulatory filings such as annual and quarterly financial statements.

XBRL is a technical reporting language and the most important component of it is the taxonomy. XBRL taxonomy is a fundamental component of the language, in simple terms it can be defined as a set of codes based on a set of accounting principles, which can be used to classify various elements of a company's financial statements. According to Richards & Tibbits (2002) the minimum information required to build XBRL taxonomy is the XBRL specification and the appropriate accounting standards, plus two sets of information including the sample financial statements for the Big 4 accounting firms and the actual annual reports of companies.

The XBRL taxonomy based on the IAS/IFRS has gone through various stages of evolution. Most countries have adopted January 2005 as the date for incorporating the IAS/IFRS in the national financial reporting. From Khan's (2006) point of view this can cause uncertainties for certain corporations, who

may not have specific guidelines to follow regarding particular items, if they were use XBRL for reporting purposes, using the IAS/IFRS. These elements would relate specifically to industries such as the banking industry as well as in general.

According to Zabihollah and Turner (2002) the advantages of XBRL include more accurate financial reporting, with fewer errors due to reduction in human involvement, resulting in more reliable and relevant information. Other benefits described by the authors mentioned above include faster, more accurate electronic searches for information, because of identification of each instance of information specifically through the attached label. Another benefit mentioned is continuous auditing. Bovee et al (2002) has emphasized that XBRL has the capability of providing near continuous financial reporting. This continuous release of data should prevent major fluctuations in stock prices following periodic release of financial information. Rogers (2003) has described XBRL as the promise to help make public companies more uniform in the way their financial data are communicated, presented and reported to investors. Rogers has also projected that XBRL would also promote truly transparent financial information in annual reports, quarterly statements and other documents. SEC's mandatory stand on the use of XBRL would encourage all organizations to adopt XBRL as their reporting language.

Cuneo, on the other hand, (2002) has shifted the focus to the viewpoint of executives as far as XBRL and its adoption is concerned. Cuneo (2002) has pointed out that PriceWaterhouseCoopers and the Economist Intelligence Unit have presented a five-step recovery plan for financial institutions suffering from lack of public confidence including endorsement of XBRL. Cuneo (2002) has proposed that the use of XBRL would make it harder for managers to hide information in footnotes, thus increasing the integrity of financial reports. This point relates back to the study done by Hodge, Kennedy & Maines (2002) where it was found that the use of XBRL would allow better and faster extraction of data and would thus make it easier for users to get a better picture presented in the whole of the financial data rather than just the body of the financial statements.

On the other hand, Hannon (2003) has pointed out that presently SEC can only review 16% of the 14.000 annual corporate filings by public companies. The solution presented by Hannon (2003) is the use of XBRL based analytical software that would allow the SEC to analyze all the 14.000 corporate filings and thus discovering anomalies in financial reporting an easier task.

Concluding remarks and further research

Due to recent developments in information technologies, CEE companies are using the Internet to disclose accounting information and other non-financial data through their web sites. CEE countries are thus following a universal trend to use the Internet as a way to provide instant and simultaneous access to accounting information, particularly to existing and potential investors. As we mentioned already this paper investigates the degree to which the Internet is being used by CEE companies listed on stock markets, to voluntary disclosure financial and non-financial information. The web sites of these companies were examined according to PFS Program Survey conducted in 15 February 2008.

The web offers a number of possible features for corporate reporting. Financial reporting practices on Internet requires adequate preparation, proper regulations, control and effective structure for its better functioning. In this context of Internet Financial Reporting and results derived from the PFS Program Survey, our paper drew the attention to the following main issues:

- the standard setters, for example IFAC and FEE and regulatory body for listed companies SEC, are to extend the content of standards to regulate the content of digital financial reporting;
- necessary Internet specific rules with respect to interlinking of information, performance data, press releases on recent events and price sensitive information and updating web site data after a certain interval are required to be developed;
- the domain name of individual companies must be highly restricted so that it cannot be used by others;
- instead of other formats of financial reporting on Internet, consistent use of XBRL should be encouraged so that extraction of specific information by data identification and analysis of the same will be easier;

- further research should be carried out in order to prevent manipulation of digital data and guarantee the authenticity and reliability of the corporate information distributed via Internet to the users' satisfaction.

These are only preliminary conclusions. Our attempt will be continued and developed in further researches.

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