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THE IMPACT OF CORPORATE GOVERNANCE ON INTERNET REPORTING IN ASIAN COUNTRIES

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Abstract

Internet Reporting (IR) has influence on the fast developing and dynamic business world especially in Asia. This is important because internet functions as a medium of communication to the world for the purpose of spreading and getting information at any time anywhere. Thus, the trend of IR in Asia is increasing from year to year and most of the top companies used IR to attract the investors. The objective of this study is to examine the relationship between corporate governance and IR in top 25 companies in Asian countries, which are Malaysia, Indonesia, Thailand and Singapore. A total of 100 Asian company's website has been analysed. Content analysis was used to examine the level of IR in the company's website. Correlation analysis was used to determine the relationship between the managerial ownership, audit committee meeting frequency, CEO duality and board size with IR. The findings revealed that managerial ownership, audit committee meeting frequency, CEO duality and board size have insignificant relationship with IR.

Keywords: Corporate governance, internet reporting, Asian countries.

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1. Introduction

The purposes of corporate governance are to give direction and lead the actions, policies, practices and decision of the agents and stakeholders. The company will develop the effective and prudent management that can drive to its long term goals. Corporate governance is also known as the system of rules and practices that guide the company to become more effective as well as balancing the interest among internal user (Rashidah, 2011). When applying this system, the board of directors have to make sure that their company operates in accountability, fairness and transparency for the users to make decisions.

The stakeholders need fast and reliable financial information to fulfill their requirements for timely decision making. Therefore, information technology provided by the internet can meet that expectation through internet reporting (IR). IR is the practices that companies provide the financial information through the internet (Ojah & Mokoaleli-Mokoteli, 2012). Recently, IR has become as one of the most regularly used sources of information by the investors (Hindi & Rich, 2010). Various organization around the world used the internet to communicate and deliver the information to the users, including the financial information. According to Statista (2014), the number of worldwide internet consumers have increased from 394 million in 2000 to 2,923 million users in 2014. This shows that there is an increase in the population of internet users worldwide, including the corporate IR. Thus, IR is vital in the current information technology era (Adhikari & Tondkar, 1992; Jones & Xiao, 2003; Khan & Ismail, 2011). The corporate information can be accessed in the companies' official websites or in business pages. By having IR, the users, specifically the investors can easily access to the company's information for decision making as compared to the paper based disclosure.

This paper aims to examine the relationship between corporate governance elements and IR in Asian countries, which are Malaysia, Indonesia, Thailand and Singapore. Corporate governance elements used in this study are managerial ownership, audit committee meeting frequency, CEO duality and board size. The data was collected in the official website of the companies. This study will show to the entities on the importance of the IR in this era and to the users for decision making. This study also provides the guidelines to the company investors, regulatory bodies, and researchers in determining what items should be included and highlighted in the company's website.

2. Problem Statement

Internet-based technology allow the companies to compress the information into easier format such as excel and hypertext (Kelton & Yang, 2008). This will help the users to have better understanding regarding the firms and can evaluate their performance in a timely basis. In addition, the firms that provide information on the internet can demonstrate a better performance to their stakeholders. Hanafi et al. (2009), stated that the voluntary disclosure will show as a sign to investors as the reaction to the asymmetric information in the market. As a result, information asymmetry will reduce when there is more disclosure of information through the internet by the firms (Diamond & Verrecchia, 1991). On the other hand, the use of the internet to disseminate corporate information also might become as a signal of a high performance firm (Craven & Marston, 1999) as it demonstrates an up-to-date and modern firm by using the latest technology rather than conservative methods. A good firm will disclose more information to facilitate the shareholders to differentiate between the good firm and the bad firms (Sia et al., 2018). Hence, the roles of corporate governance might become as one of the tools to ensure a good performance and quality of the firm. According to Solomon (2010), a good corporate governance framework in an organization shows a structured path to better management practices, effective oversight and control mechanisms that at the end will lead to opportunities for growth, financing and improved performance.

Besides that, IR will have a significant impact to the public and the external users in order to make a good decision. This activity usually leads the companies to prepare well and less misstatement because the information will be used by wide range of users such as investors, stakeholders and shareholders. If the information provided were incomplete or have a high probability of misstatement, it will mislead the users and cause them to make a wrong decision and as a result, the users will refuse to invest in that particular company in the future. Ojah and Mokoaleli-Mokoteli (2012) documented that most of the companies have difficulties in preparing the IR to the users and public as a whole. Additionally, in Asia, most of the companies are still in progress to improving and applying IR (Davey & Homkajohn, 2004). Even though many research have been conducted in relation to IR, there are still questions that need to be addressed, especially in the context of Asian, concerning Asian's current IR status. Alam and Rashid (2014) stated that IR has been reasonably accepted as a tool to communicate with stakeholders in the current time. On the other hand, Gajewski and Li (2015) revealed that even though the companies distribute the information to improve the productivity of the company, the purpose of information on internet can be unregulated and cannot be control by entities. In addition, some researchers have also noted the possibility that information disclosed could be harmful as it could advantage product–market rivals by providing them valuable information (Feltham et al., 1992; Hayes & Lundholm, 1996; Leuz & Wysocki, 2006; Wagenhofer, 1990). Hence, virtuous monitoring is required to control the information disclosure, including IR so that it will benefit the company as well as to the wide range of users as a whole. Thus, this study will discover whether corporate governance mechanisms can produce a valuable IR.

There are many researches have been performed in relation with the extent of corporate IR implementation (Craven & Marston, 1999 for the UK context; Bharadwaj et al, 1999 for the US context; Chao et al, 2010 for the Taiwanese context; Aly et al, 2010 for the Egyptian context; Khan & Ismail, 2011 for certain industries in Malaysia and Kamalluarifin, 2016 for top companies in Malaysia). Moreover, most of the studies on corporate governance and IR focused on one specific country only, as in the study by Li and Qi (2007) that examine the effect of corporate governance and ownership structure on voluntary disclosure of Jordanian companies and Ezat and El-Masry (2008) in Egyptian listed companies. Hence this study will close the gap by investigating the impact of corporate governance on IR in Asia countries which are Malaysia, Indonesia, Thailand and Singapore.

Furthermore, public listed companies in Asia need to extend and implement the qualified organization of corporate governance required by Code of Corporate Governance and International Corporate Governance Network (ICGN). So, this study intends to explore whether all the public listed companies, especially in Asia have employed under the qualified organization of corporate governance. Based on Rahim et al. (2015), the qualified organization of corporate governance which is Malaysian Code of Corporate Governance (MCCG) usually promote effective and quality standards of user's stewardship and corporate governance to advance efficient markets and sustainable economies toward the company. In addition, Lim et al. (2013) stated that if the company did not apply and implement authorize corporate governance standards, they will automatically have lack and inaccurate professionalism of governance and stewardship practices in the company. Thus, the role of corporate governance is important to facilitate the IR implementation in a firm.

Managerial ownership can be defined as a percentage of entity's shares belong to the management of the entities. Besides, as the managers, they are also the shareholders of the entities. As the managers and shareholders, probably the increasing in the entities' value is important as well as to increase the shareholder's wealth or assets. This indirectly will increase their own wealth. Therefore, it will cause a tendency for manager to decrease the opportunistic behavior. Based on the prior study, governance mechanisms that have the capabilities to decrease management's opportunistic behavior and information asymmetry can reduce the level of monitoring and voluntary disclosure (Welker, 1995). Based on agency theory, it is argued that firms with higher management ownership structure may disclose less information to shareholders through voluntary disclosure (Rouf & Al-Harun, 2011). Empirical evidence found that managerial ownership affects voluntary disclosure negatively (Eng & Mak, 2003). Huafang and Jianguo (2007) as well as Kelton and Yang (2008) did not find any relationship between managerial ownership and voluntary disclosure including Internet Financial Reporting. Therefore, this study proposed the following hypothesis, *H1: There is a significant relationship between managerial ownership and IR.*

The audit committee function is vital in monitoring the process of financial reporting (Blue Ribbon Committee, 1999). Based on previous studies by Carcello and Neal (2003), Abbott et al. (2003) and Kelton and Yang (2008), the key characteristics of the audit committee have the powerful effect on the capability of the audit committee to execute its duties effectively. Based on the study by Ho and Wong (2001), voluntary disclosure including internet reporting (IR) will be complimented by the audit committee meeting frequencies. However, no research can give strong evidence that audit committee meeting frequencies will influence Internet Financial Reporting. Kelton and Yang (2008) showed the empirical evidence that audit committee meeting frequencies will give positive effect to Internet Financial Reporting. Therefore, this study proposed the following hypothesis, *H2: There is a significant relationship between audit committee meeting frequency and IR.*

Iftikhar and Yasir (2013) stated that the CEO is the most important person in the company because the CEO has an authority to make a decision and strategies. CEO duality means that the position of chairman and CEO in the board is hold by the same person, who forms a most individual power in the company. The CEO duality can give an impact to the board independences and reduce the strength of corporate governance in the company (Rashidah, 2011). Related to the agency theory, an agency contract is one where the principal will engage with the agent. Both parties want to fulfil their interest but they have a separation on the ownership and control of the company. When the CEO is also the member of shareholders, they will have the same goals and interest. The board effectiveness and performance will be influenced by the CEO since the agent is capable in controlling the selection of the board members, board meeting, and also the agenda items (Rashidah, 2011). Meanwhile, Kamarudin et al. (2012) stated that the CEO duality will drive to the good internal control, higher firm value and good governance in the company. It is because of the chairman is the independent director of the company and will direct the company without any bias.

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Therefore, this study proposed the following hypothesis, *H3: There is a significant relationship between CEO duality and IR.*

The board size is an important indicator on the ability of director to control and manage the organization (Boone, Field, Karpoff and Raheja, 2007). They further argued that the specialization on board members that involve in firm growth and increase in monitoring will give an impact to the board growth. Some studies suggests that the management processes that are complex will lead to the larger hierarchical of firms. The CEO needs an advices, information and resources from the board. The more information can be provided when the size of board is large (Fama & Jensen, 1983; Patro et al., 2003). In addition, the new tasks of new area need proper amount of board size (Bhagat and Black, 1999). In other side point of view, Hermalin and Weisbach (2003) argued that the large board will lead to the agency problem, for instance, the free riding problem. As a result, there will be low performance in management process. Mak and Kusnadi (2005) also supported that the board size will give negative effects for public listed companies such as in Malaysia and Singapore. Besides, Jensen (1993), stated that the board that consist of more than seven members drive to less effective in the firm operation because of less communication and participation in decision making and as a result, the firm will be dominated by the CEO. It shows that the board size will affect the IR practices in organization. It is because of loss of control, it is hard to reveal the negative news to the users of firm's information. Therefore, this study proposed the following hypothesis, *H4: There is a significant relationship between board size and IR.*

3. Research Questions

The research questions that need to be focused are:

1. Is there any significant relationship between corporate governance elements towards IR?
    a. Is there any significant relationship between managerial ownership towards IR?
    b. Is there any significant relationship between audit committee meeting frequency towards IR?
    c. Is there any significant relationship between CEO duality towards IR?
    d. Is there any significant relationship between board sizes towards IR?

2. What is the extent of IR information among the companies in Asian countries (Malaysia, Indonesia, Thailand, and Singapore)?

4. Purpose of the Study

This paper aims to contribute to an immature area in the literature related to internet reporting among the Asian firms. The research objective is to determine the relationship between corporate governance elements and internet reporting among the top listed companies in Malaysia, Indonesia, Thailand and Singapore. This study will attempt to develop a better understanding among users of the internet reporting especially potential investors to determine the effects of internet information disclosure among the companies in Asia. This study also provides the guidelines to the company's investors, regulatory bodies, and researchers in determining the important information that should be disclosed and highlighted in the company's website.

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5. Research Methods

A total of top 100 public listed companies in Malaysia, Indonesia, Thailand and Singapore were selected in this study. Out of top 100 companies, the top 25 companies were chosen to represent each country in order to answer the research objective. These countries were selected because most of previous research on corporate governance and IR focused on only one specific country. Thus, this study will close the gap by investigating the impact of corporate governance on IR in Asian countries. Moreover, in the internet era, many listed companies have decided to use internet as a communication tools for investor's relations (Pervan & Sabljic, 2011), since it provides a unique form of corporate voluntary disclosure that enables companies to provide information instantaneously to global audience (Abdelsalam et al., 2007). Thus, it is important to know the level of implementation and contribution of corporate governance in IR, especially in Asian as it will indirectly disclose the current status of IR in Malaysia as compared to its neighbour, which is Indonesia, Thailand and Singapore.

For corporate governance elements, annual report for the year 2016 was selected because most of the top 25 companies in each country have latest corporate web for 2016. In addition, the trend of internet usage has increasing from year to year (Salahuddin & Gow, 2016) and 2016 was the most suitable sample to be used. The annual report was used to analyze the corporate governance elements which are (1) managerial ownership (2) audit committee meeting frequency (3) CEO duality and (4) board size. Besides, for IR index, the data is collected from the companies' official website. Score sheets of Internet Disclosure Index (IDI) were utilized to determine the score of disclosure level in the internet reporting among the selected companies adopted from the study of Spanos and Mylonakis (2006).

5.1. Dependent Variable

The dependent variable used in this study is Internet Reporting (IR), measured by Internet Disclosure Index (IDI). This index was adopted from the study of Spanos and Mylonakis (2006). In this index, the items are taken from the companies' official website to measure the content and the presentation or formatting. The level of IR is calculated through total real score obtained in content and presentation dimension for each company compared to total maximum scored.

The formula that is used to calculate the IR index is as follows:

$$\text{IR index} = \frac{\text{Total real score obtained in content and presentation dimension}}{\text{Total maximum score}}$$

The IDI is allocated into two main dimensions, which are (1) content dimension and (2) presentation or formatting dimension. There are four items under content dimension (accounting and financial information, corporate governance information, CSR and human resources information and contacts details to IR and related convinces) while two items under presentation or formatting dimension (material process able formats and technological advantages and user support). To measure the level of IR, a checklist with an answer (yes/no) where a score of 0 is given for 'no' index and score of 1 is 'yes'. In the content dimension, items are identified according to the information presented in the company's website, while in

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the presentation dimension, items are evaluated based on how the information was displayed and how it was used.

5.2. Independent Variable

The independent variables for this study are (1) managerial ownership, (2) audit committee meeting frequency, (3) CEO duality and (4) board size. Managerial ownership was measured by the top 30 largest shareholders in the company adopted from the study of Puspitaningrum and Atmini (2012). Meanwhile, the second independent variable, audit committee meeting frequency was measured by the numbers of meeting conducted with audit committee per financial year (Sanchez, Dominquez, Alvarez, 2011). CEO duality was measured by using dummy variable which one (1) if the firm's CEO is also chairman of the board and zero (0) for otherwise (Kelton and Yang, 2008). The last independent variable, board size was measured by the total number of executive and non-executive directors in each organization (Guest, 2009).

6. Findings

Table 1 shows the frequency of the IR information that Asian companies provide in their website. The highest percentage is 100% which is corporate governance information. It shows that all the 100 companies disclose the corporate governance information in their website. When they disclose the information, it means that they apply and practice the corporate governance policy to ensure that all the information needed by the users is transparent. The smallest percentage is 67% which is material process able formats.

Table 01. Internet Disclosure Index by Asian Companies

	Valid	Missing	Mode
Accounting and Financial Information	100	0	93%
Corporate Governance Information	100	0	100%
CSR and Human Resources Information	100	0	88%
Contacts Details to IR and Related Convinces	100	0	88%
Material Process able Formats	100	0	67%
Technological Advantages and User Support	100	0	86%

Table 2 shows scores for internet disclosure for each country. The highest disclosure by Thailand is accounting and financial information with score of 94.93% while the lowest score is technological advantages and user support, which is 74.86%. For Malaysian companies, the highest disclosure is also accounting and financial information with the score of 84% while the lowest score is 55.55%, which is the corporate governance information. This means that the top 25 public listed companies in Malaysia still not practice and fully implemented the MCCG 2017.

In Singapore, the highest disclosure is accounting and financial information (94.67%) while the lowest score is technology advantages and user support (75.43%). Meanwhile, for Indonesia, the highest score is corporate governance information which is 89.78% while the lowest score is material process able formats, with the total score of 45.33%. It shows that the most important information which is accounting and financial information are not being fully disclosed to the users in Indonesia. The highest total IDI is

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86.72% scored by Singapore. It indicates that the top companies in Singapore disclose more information on internet as compared to other countries to the users. This result is slightly different with Thailand which discloses 86.48%, followed by Indonesia, with the score of 76.32%. The Malaysian companies score the lowest which are 69.44%. It shows that the top 25 companies in Malaysia not fully disclose their information to the users.

Table 02. Internet Disclosure Index for Each Companies

	Thailand	**Malaysia**	**Singapore**	**Indonesia**
Accounting and Financial Information	94.93%	84%	94.67%	81.6%
Corporate Governance Information	85.33%	55.55%	85.78%	89.78%
CSR and Human Resources Information	81.5%	71%	82%	73%
Contacts Details to IR and Related Convinces	86%	61.5%	86.5%	67%
Material Process able Formats	89.33%	66.67%	89.33%	45.33%
Technological Advantages and User Support	74.86%	64.57%	75.43%	75.43%
Total internet disclosure index (IDI)	86.48%	69.44%	86.72%	76.32%

Table 3 shows the normality test using Kolmogorov-Smirnov since the sample is more than 50 (Sekaran & Bougie, 2016). The table shows that the significant value of independent variables is less than 0.05 which are 0.000 to 0.008, which proves that the data is not normally distributed. The significant value for IR is 0.096 which is more than 0.05 which shows that the IR is normally distributed.

Table 03. Normality Test

	Kolmogorov-Smirnov[3]		
	Statistics	df	Sig.
Managerial Ownership	.427	100	.000
Audit Committee Meeting Frequency	.254	100	.000
CEO Duality	.491	100	.000
Board Size	.105	100	.008
IR	.082	100	.096

a. Lilliefors Significance Correction

Table 4 shows the summary of result from the Spearman correlation analysis. Spearman correlation was used because majority of the data are not normally distributed. For the first hypothesis, the result summarized that there is insignificant influence of managerial ownership on IR with correlation coefficient of 0.075 and the significant level of 0.458 ($p>0.01$ Therefore, hypothesis 1 is not supported. This finding is consistent with the study conducted by Kelton and Yang (2008) which found an insignificant relationship between managerial ownership and voluntary disclosure, including Internet Financial Reporting. According to Denis et al. (1997), a large percentage of shares held by the manager will results in a reduction of the effectiveness of external and internal governance mechanisms. Based on agency theory, it is argued that firms with higher management ownership structure may disclose less information to shareholders through voluntary disclosure (Rouf & Al-Harun, 2011). Thus, it can be concluded that the higher managerial ownership will result to lower monitoring of voluntary disclosure, including the IR.

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The second hypothesis also is not supported since the result shows insignificant relationship between the audit committee meeting frequency and IR with correlation coefficient of 0.039 and the significant level of 0.702 (p>0.01). This result is consistent with the study by Madi et al. (2014) which found the insignificant association between frequency of audit committee meetings and corporate voluntary disclosure. The finding shows that audit committee meeting does not improve the monitoring role of such committee over corporate disclosure practices, including IR.

Table 4 also shows negative, but insignificant relationship between the CEO duality and IR, with the correlation coefficient of -0.004 and the significant level of 0.969 which is more than 0.01. This outcome is consistent with the previous study by Ahmad et al. (2017) that found no significant association between CEO duality and voluntary disclosure. As family owned companies dominate most of Asian countries business setting, this result is surprising as CEO duality is identical with family owned companies. This finding suggests that most of companies in Asian are moving towards a more independent board in order to raise their shareholders' confidence.

As for the last hypothesis, the result also shows an insignificant relationship between the board size and IR, with the correlation coefficient of 0.164 and significant level of 0.102. This result is inconsistent with the previous studied by Mak and Kusnadi (2005) which found a significant negative relationship between the board size and firm performance. Based on Gandia (2008), a large board size allows diverse experiences and opinions, which will increase a board's supervisory capacity and improve the voluntary disclosure. However, Herman (1981) argues that large boards are more likely to be ineffective. It shows that the board size will affect the IR practices in organization. It is because of loss of control, it is hard to reveal the negative news to the users of firm's information. The insignificant result may also because of limited sample size used in this study.

Table 04. Spearman Correlation Analysis

		Independent Variables				**Dependent Variable**
		Managerial Ownership	Audit Committee Meeting Frequency	CEO Duality	Board Size	IR
Managerial Ownership	r Sig.	1.000	.209* .037	-.020 .841	.112 .267	.075 .458
Audit Committee Meeting Frequency	r Sig.		1.000	-.253* .011	.210* .036	.039 .702
CEO Duality	r Sig.			1.000	-.302** .002	-.004 .969
Board Size	r Sig.				1.000	.164 .102
IR	r Sig.					1.000

*. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed).

7. Conclusion

The purpose of this study is to investigate the relationship between corporate governance elements and IR. The total of top 100 listed companies in Asia was chosen, where the companies' website from each

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country was analysed to determine the IR disclosure and annual report for the year 2016 was used to determine the corporate governance elements. Moreover, this study investigate the extent of IR disclosure among the top 25 companies in Asia by using frequency analysis.

This study used correlation analysis to determine the relationship between corporate governance elements and IR. The results showed that all the hypothesis have been rejected as all the independent variables have insignificant relationship with IR. The results concluded that there is insignificant relationship between managerial ownership, audit committee meeting frequency, CEO duality and board size with IR. However, the result showed a positive relationship between managerial ownership, audit committee meeting frequency and board size with IR. This shows that the existence of managerial ownership will motivate a firm to have more disclosure on IR. Besides, if the audit committee meet regularly, it will help the firm to increase the level of IR. As for the board size, the result shows that the bigger board size will help in developing a positive IR disclosure. However, IR disclosure will decrease if the chairman and CEO is the same person in a firm. This result support the requirement by MCCG 2017 which is to have a different person as CEO and chairman. From the result, it can be concluded that corporate governance is vital for organization to improve the performance and one of the way is by assisting the firms to disclose more information to users including IR.

Besides that, 50 items of checklist for IR (IDI) have been highlighted in this study which shows the most disclosed items based on their ranking. From the frequency analysis, the most items that have been disclosed are corporate governance information and accounting and financial information. Meanwhile, the highest total IDI was scored by Singapore. It indicates that the top companies in Singapore disclose more information on the internet as compared to other countries. One of the reasons is because Singapore is a highly developed free-market economy and has a high economic growth. This factor has motivated the companies in Singapore to disclose more in order to attract the investors. Besides, Thailand scored the second places, followed by Indonesia and Malaysia. This shows that among these four Asian countries, Malaysia scored the last place. According to Sia et al. (2018), many Malaysian listed companies do not prefer to use the internet as a platform for financial information disclosure.

However, the results in this study are subject to some limitation. First, the data used, especially for corporate governance elements is only for one year which may not represent the actual achievement of the company as a whole. Further study can be conducted by analysing the corporate governance elements and IR with adding the period to be analysed. Thus, the result will be more accurate and reliable. Besides, the samples chosen are only 25 top companies in Asia which limiting the comparison and does not represents the whole companies in Asia. Thus, the result could be different if more companies in Asian were examined. The future research also can use other forms of corporate communication such as interview or questionnaire to have a different view of IR disclosure, rather than relying on the company's websites.

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