The level of Internet Financial Reporting Disclosure in listed companies in Sri Lanka

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Abstract

This study aims to analyze what extent Internet Financial Reporting (IFR) disclosure in the Sri Lankan Context by using the secondary data collected from the 50 sample company's websites. Descriptive statistics related to IFR-Index and the one-sample t- test is used to ascertain the current IFR disclosure level in Sri Lanka for the financial years 31st March 2020. The results indicate that the overall level of IFR-Index is only 42%. The total content index sub-score is, on average, 41%, and the level of presentation format index sub-score on average is 44%. The study relied upon that the level of IFR practices in the Sri Lankan context is very poor compared with counterparts. This study implies the Sri Lankan companies and policymakers have to take action to promote such reporting practices in Sri Lanka.
Keywords: Colombo Stock Exchange (CSE), content attributes, internet financial reporting and presentation attributes

Introduction

In the modern technological business world, most contemporary companies use the Internet Financial Reporting (IFR) to communicate financial and non-financial information with stakeholders through the company's e-sources (Marston & Polei, 2004; Omran & Ramdhony, 2016). Traditionally, once in a year, the financial information had been communicated through a printed annual report. Whereas at present, the companies can be published the company's performance information more frequently viz., e-sources than the traditional method. Moreover, IFR has some robustness that is an innovative presentation of information with faster and lower cost, dynamic multimedia format, broader, and easier access to information for a larger group of the user without selection, creating interest to potential investors and boosting company image (Siti, Fatima & Nazli, 2016). It is a powerful weapon used by the corporation ,to disseminate the corporate information to its stakeholder, and it is considered a precondition for a company's sustainability. Therefore, IFR is essential to tie in with continuous disclosure on the internet, or else adverse consequences will be faced by the particular entity.

A considerable number of studies have been carried out in developed countries with advanced capital markets (Turmin, Abdul Hamid & Mohamad Ghazali, 2016). Notwithstanding, these findings from developed countries may not be suitable for other countries with various business environments and various stages of market development (Aly & Simon, 2008). Even though the growth of internet usage in Sri Lanka has been incredibly increased, research scholars' works related to IFR still is a dearth. The lack of disclosure regarding the company's information may be lead to several consequences such as business failure(Miththrananda & Priyanath, 2020), affecting the firm performance (Bishara, Andrikopoulos & Eldomiaty, 2020), increasing the agent opportunism behavior (Miththrananda & Priyanath, 2020), affecting the stock price (Azrak, Saiti, Kutan & Ali, 2020), high profile accounting scandals (Leopizzi, Iazzi, Venturelli & Principale, 2020) and etc. Day to day, the advanced new technology has been updated, which also impacts IFR level. Thus, previous research studies regarding this aspect became irrelevant because the company may updateits corporate website. Therefore, examine the current extent level of IFR practice in Sri Lanka is needed a better understanding. Sandhu and Singh (2019) find on the average of IFR practices in India context is only 61.90%. Meanwhile, India is an emerging company as well as it is located near to Sri Lanka.

Literature Review

Turmin, Abdul Hamid and Mohamad Ghazali (2016) state that since 1955 business firms have paid serious attention to using internet technology to disseminate the company information to its stakeholders. Marston and Polei (2004) document that the advanced Internet technology provides the company with new opportunitiesto replace and develop traditional ways of investor and stakeholder communication, which means that IFR is a substitute method to paper-based reporting, with many advantages.

The last few years, empirical study discloses that the extent of IFR adoption varies among countries (Silva & Ajward, 2018). Yassin (2017) finds out th at the Jordanian public shareholding companies listed on the ASE disclosure the 69% and 97% of content and presentation attributes respectively through e-source, which portrays that companies in Jordan provide quality information required to enhancement. Similarly, Marston and Polei (2004) discover that 89% of German companies present the company's website information. Whereas Silva and Ajward (2018) conclude that level of IFR disclosure in Srilanka is only 16.2%, and the average of content and presentation format disclosure is 12.52% and 26.88% correspondingly. While Botti, Boubaker, Hamrouni, and Solonandrasana (2014) conducted on 32 French CA CAO firms, the result reveals that 52.8% adopt IFR disclosure. There are a few

studies in the Sri Lankan context. Thus, the interest of academic researchers on IFR practices in the Sri Lankan context has been increased.

Methodology

This study stands on the positivist paradigm because the research phenomenon can be observed; thus, this study lies with the quantitative research approach, and data is collected through its website. As of 31st March 2020, there are 290 companies listed on Colombo Stock Exchange. Among these, companies that possess websites are considered as a population of this study. The selected sample includes 50 companies based on the highest market capitalization as of 31st March 2020. Based on the literature review, the following hypothesis is developed:

H_0:   The IFR disclosure (mean value of IFR-Index) practice in Sri Lanka is equal to or less than 60%

H_1:   The IFR disclosure (mean value of IFR-Index) practice in Sri Lanka is more than 60%

IFR-Index (IFRI) is used to investigate the level of IFR practices and is based on a review of the electronic distribution of business information by the Financial Accounting Standards Board (FASB, 2000) and previous literature (Agboola & Salawu, 2012; Bozcuk, 2012; Marston, 2003). The attributes of the IFRI consist of 35 items, which are divided into two sub-parts, i.e., 25 and 10 items are Content and Presentation attributes, respectively. Further content attributes breaking down into four parts (Company Information (CI)-5 items, Financial and Investor related financial Information (FNRFI)-11 items, Corporate governance disclosures (CGD)-7 items, Social responsibility disclosures (SRD)- 2 items). The study uses an unweight index for scoring every item in IFRI, applying scores 0 and 1. Score 1 is assigned when the corporate website presents any attribute; otherwise, the score is 0. The following formula measures IFRI:

Equation 1:- Internet Financial Reporting Index

$$IFRI = \frac{\sum_{i=1}^{nj} X_{ij}}{n_{ji}}$$

Source: Silva and Ajward (2018)

n_j = Number of relative items applicable to company

X_{ij} = "1" if the item is disclosed, otherwise "0"

Results and Discussions

Table 1. Descriptive statistics on IFRI attributes

	Total Content Attributes (TCA)					Total Presentation Attributes	Total IFRI Attributes
	CI	FNRFI	CGD	SRD	TCA		
Mean	3.56	3.84	1.58	1.24	10.22	4.4	14.62
Minimum	1	0	0	0	1	1	2
Maximum	5	9	5	2	20	10	30
Median	4	4.5	2	2	10.5	4	15
Std. Dev.	1.16	2.12	1.29	0.94	4.40	1.92	5.90

Table 2. Descriptive statistics on IFRI

	Total Content Index (TCI)					Total Presentation Index (TPI)	IFRI
	CI-Index	FNRFI-Index	CGD-Index	SRD-Index	TCI		
Mean	0.71	0.35	0.23	0.62	0.41	0.44	0.42
Minimum	0.20	0.00	0.00	0.00	0.04	0.10	0.06
Maximum	1.00	0.82	0.71	1.00	0.80	1.00	0.86
Median	0.80	0.41	0.29	1.00	0.42	0.40	0.43
Std. Deviation	0.23	0.20	0.19	0.47	0.18	0.19	0.17
Skewness	-0.60	-0.28	0.43	-0.51	-0.35	0.53	-0.21
Kurtosis	-0.13	-0.16	-0.10	-1.71	-0.44	0.09	0.002

Tables 1 and 2 depict the descriptive statistics of IFRI attributes and IFRI for the sample of 50 companies, respectively. The mean value of CI-Attributes 3.56 out of 5 attributes finds its own website, i.e., CI-Index is 71%. It indicates that Sri Lankan companies highly disclose company-related information through the website in order to enrich the company image among the stakeholders. Meanwhile, the average of FNRFI-Index is 35% (average is 3.84 out of 11 attributes), indicating that Sri Lankan companies disseminate the less amount of FNRFI. Furthermore, CGD-Index is the lowest value among the sub-parts content index. In contrast, SRD-Index is more than CGD-Index by one and a half times. Astara, Mitoula and Theodoropoulou (2015) point out that corporate social responsibility practices drive its sustainable development. Therefore, Sri Lankan companies focus on publishing information related to SRD. Total score IFRI- Attributes refer to both content and presentation attributes used by the sample companies in Sri Lanka. 41% is the average value of the TCI with an 18% standard deviation. Similarly, the average usage of TPI is 44%, with a 19% standard deviation. The presentation format works as a primary tool to attract potential investors and align them with the corporative website in a sustainable way. This study observes that the disclosure pattern on the companies' corporate website in Sri Lanka is not sufficient to entice the stakeholders.

The average score of IFRI is 42%; it shows that the level of internet financial reporting practices in Sri Lanka is relatively low. Similarly, Silva and Ajward's (2018) study discovered that an IFR practice in Sri Lanka is low, but the percentage level of IFR (16.2%) has slightly deviated from the result of this study. The reasons for such a difference may be the sample company's variation or IFR-Attribute (content and presentation) variation from this study. The minimum value of IFRI exposes that all the sample company websites have at least more than one attribute out of thirty-five. The maximum value of IFRI discloses that none of the company websites consists of all the thirty-five attributes, i.e., at least one attribute is missing.

One sample t-test

Table 3. One sample t-test

	IFRI
Mean	0.42
Variance	0.03
Observations	50.00
Hypothesized Mean	60.00
t Stat	-2500.70
P(T<=t) one-tail	0.00
t Critical one-tail	1.68

Table 3 illustrates the result of the one sample t-test of IFRI. The p-value is 0.00. The critical value of one tail is 1.68, while the test statistic is -2500.70, which is lower than the critical value. Thus, the null hypothesis is accepted; that is, the mean value of the IFRI is lower than the 60%. It indicates that listed companies in Sri Lanka haven'tdisclosed the more company's information to its stakeholders.

Conclusions and Recommendations

IFR is served as the bridge between the company and its stakeholder. As far as previous literature regarding the level of IFR practices, there is a dearth of studies on this aspect in developing countries, especially in the Sri Lankan Context. Hence, it is necessary to study this aspect in the Sri Lankan context. This study aims to ascertain the level of IFR practices in the Sri Lankan context.

This study finds that level of IFR practices in the Sri Lankan context is very poor. The company can reap various benefits through excellent IFR practices (Silva & Ajward, 2018). Therefore, the company has to pay more attention to enrich its continuous disclosure practices on the internet, and policymakers should promote such reporting practices in Sri Lanka. This study only selected the 50 companies based on the highest market capitalization, which

may not represent the total population of this study, so the future study could have been used other sampling techniques and increase the sample size. This study used the cross-sectional time horizons, which did not show the time effect; thus, future research could have been used longitudinal time horizons and take consideration what are the factors determine the level of IFR.

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