THE DETERMINANTS OF INTERNET FINANCIAL REPORTING FOR INVESTOR DECISION MAKING: EVIDENCE FROM INDONESIA COMPANIES

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Abstract. This research aims to analyze the effect of profitability, company's ages, and audit quality on Internet Financial Reporting with the board of Commissioners as a moderating variable in manufacturing companies listed in the Indonesian Stock Exchange for year-end from 2018. Moderating variables were used in this research to know whether the board of commissioners can moderate the relationship between profitability, company's ages, and audit quality to IFR. Using Moderated Regression Analysis, this research cannot provide empirical evidence that there is no relationship between profitability, companies ages, and audit quality to IFR moderated by the board of commissioners level due to lack of use of technology in developing countries.

Keywords: Profitability, company’s age, audit quality, the board of commissioners, IFRS

1 Introduction

The rapid development of technology in this decade has brought changes not only in the mind of society but also the way of a company operates its business and how exchanges its information [1]–[8].

Internet usage globally for the dissemination of financial information is a common practice for many public traded companies around the world. The internet can create a new reporting environment for public companies to communicate with shareholders continuously and to attract potential investors. The Internet makes it possible to facilitate access to information, data dissemination, cost savings associated with printing, and sending physical reports for acceleration data analysis.

Nowadays, Internet Financial Reporting IFR commonly used in the company's business operations cycle in providing easy access to financial statements to investors. IFR has emerged as the fastest media to inform matters related to the company and changed the reporting system to the paper-less reporting system [2], [9]–[11].

Most of the sample companies understudy own a web-site that presents financial information, which shows consideration for the internet as an essential medium for disseminating financial information [12]. Subsequent studies show that the internet is the primary mode currently. As the primary mode, the internet used to release, and updating company financial information promptly [1], [4], [12]–[16] have predicted increased use of the internet to disseminate information.

Financial reporting via the internet (IFR) is voluntary, so there are no rules governing disclosure. Although IFR is not mandatory, companies can increase the level of transparency of the company. With a high level of transparency, it will decrease the level of information asymmetry (mismatch) between managers and stakeholders. Increasing information transparency will ultimately improve corporate governance [3], [9], [10], [13], [17], [18]. Another advantage of using the internet is that companies can disclose information about company performance in real-time.

This paper focuses on testing the determinants of financial information reporting via the web on registered companies in Indonesia. The Indonesia based sample selection selected by considering the country characteristics as a developing country. For this particular type of country, the web-paper based application assumes as a relatively new approach for financial information reporting. It has been around no more than a decade so that it can predict IFR determinants in developing countries.

2 Literature Review and Hypothesis Development

One theory that supports the company's business activities is Agency Theory. The main principle in this theory is the working relationship between the party that gives the authority (the principal), namely the investor and the party that receives the authority (agency), i.e., the manager, in the form of a cooperation contract. Agency theory arises because of differences in interests so that each party tries to increase profits for themselves. Within the framework of agency theory, there are three types of agency relationships, namely: 1) agency relationship between managers and owners (Bonus Plan Hypothesis), 2) agency relationships between managers and creditors (Debt/Equity Hypothesis) and 3) agency relationships between managers and government (Political Cost Hypothesis). In this framework, In this case, there is a tendency for agents to convey information about their performance in a certain way to maximize the wishes of the principals, in this case, the owner, creditor, and the government.

A survey conducted on 1.000 large companies in Europe [19] reveals that 536 companies already own websites, and they already disclosed their financial reports on the internet, slightly more than 50% are on-line. The previous study in 2002 examines the relationship between Internet Financial Reporting (IFR) and stocks [12]. Lai revealed that if a company had implemented IFR and had a high level of information disclosure, it would have a stock price whose movements tended to be high [7].

In 2014, a study in Egypt showed that 56% already revealed most of the information on the company's website. The study manages to use variables of profitability, liquidity, leverage, type of industry, public share ownership, company age, foreign share ownership, and auditor size [2]. The next research exposes that company size variables significantly influence the delivery of financial information on the internet to companies in France [19].

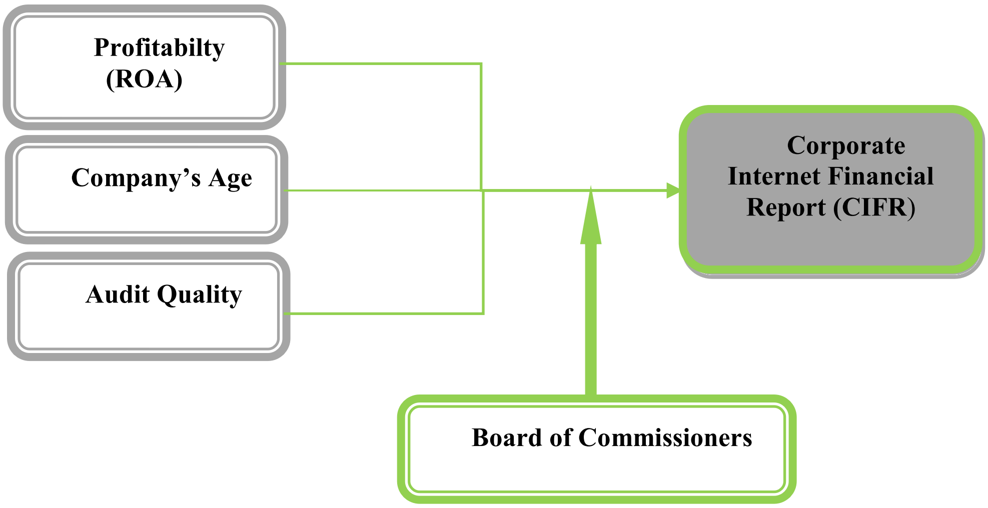

Figure 1: Hypothesis framework.

3. Research Methods

3.1 Population and Sample

The targeted population in this study is manufacturing companies listed on the Indonesia Stock Exchange in 2018. The sampling technique applied in this study to determine the research sample is the purposive sampling technique.

3.2 Operational Definition and Variable Measurement

Dependent Variable

The index of financial reporting via the internet is the dependent variable in this study. The measurement criteria of this variable refer to the research of Kelton et al. The Measurement of this variable is also divided into several criteria [10] illustrated below tables.

Criteria	Assessment	Measurement
Content	40%	If financial information disclosed in HTML format, scores in 2. If financial information disclosed in PDF format, score in 1
Timeliness	20%	Scale for this criterion assessment within a range of 0 to 3. The existence of disclosure of press releases, stock prices, and the latest quarterly audit report will

		add a score for the company.
Technology index	20%	The availability of items that cannot be provided by printed reports include download plug-ins, online feedback, presentation slides, use of multimedia technology (audio and video), analysis tools and advanced features such as XBRL
User support	20%	availability of navigation (FAQ, links to the main page, links to the top, site maps, search sites) and the number of clicks to get financial information (scale 0 to 3)

IFR-DS $= \left(\frac{Score}{Max}\%CONT\right) + \left(\frac{Score}{Max}\%TIME\right) + \left(\frac{Score}{Max}\%TECH\right) + \left(\frac{Score}{Max}\%SUPP\right)$

Add.:

Score = Total score for each disclosure component
Max = Maximum score of each disclosure component
% CONT = Proportion of criteria contents evaluation on financial statements by 40%
% TIME = Proportion of financial time reporting criteria by 20%
% TECH = Proportion of technology assessment criteria of 20%
% SUPP = Proportion of user support assessment criteria by 20%

Independent variable

1. Profitability	$(\text{ROA}) = \frac{Earning\ after\ Tax}{Total\ Asset} \text{ X } 100\%$
2. Company's age	Year of observation – year established
3. Audit Quality assessment	"0" if the company not audited by the big four affiliated public accounting firm in Indonesia "1" if the company audited by the big four affiliates public accounting firm in Indonesia

Moderating Variable

Board of Commissioners	Total of board commissioners [15]

4 Results of Data Analysis and Discussion

After the elimination process with predetermined criteria, in the final process, 154 manufacturing companies are listing on the Indonesia Stock Exchange in 2018, which will stand as the sampled for this study. Table 4.2 shows the results of regression tests with an adjusted R square value of 0.056 or 5.6%, which means that a 5.6% audit report lag can explain by variables of company size and company age. Since other factors outside the research model explain 94.4 % of variables. Assessment from the significance value of the t-test shows that there is no supported hypothesis.

Table 4.2. Hypothesis Test

Variables		Regression Coefficients	t-values
ROA		0,184	0,508
CA		0,001	0,576
AQ		-0,128	-1,801
AC		-0,015	-0,701
ROA*AC		0,006	0,091
CA*AC		0,0001	-0,587
AQ*AC		0,025	1.658
Adj. R Square	= 0,056		
F Statistic	= 0,039		

The results of this research hypothesis cannot prove that there is a relationship between profitability, company age and audit quality that is moderated by good corporate governance to CIFR [1], [2], [4], [10], [12], [13], [18], [20], [21].

The finding indicates that even though Indonesia companies are gaining high profits, sound control systems, and reliable auditors, but instead not to overly utilize technology to attract investors to invest in their companies. It is understandable. Investors are feeling more confident about the local authority's website, i.e., the Indonesian Stock Exchange, for information about the financial statements of an audited company. This investors' tendency, thereby lowering the company's efforts to optimize the current technology to facilitate access to the availability of financial reports on their website.

5 Conclusion

This study is purposed to find empirical evidence of whether profitability, company's ages and corporate governance mechanisms influence the level of Internet Financial Reporting (IFR). IFR is a tool used by companies to share financial and non-financial information with their stakeholders. This study failed to find evidence that there is a relationship between profitability, company age, and audit quality that is moderated by good corporate governance on CIFR. This research has limitations on the sample and research period used, i.e., only manufacturing companies and uses a year, 2018, so the results only represent conditions in that period. However, this was chosen based on relevant considerations, and manufacturing companies are the majority of companies in Indonesia and the fact that the company's website is always changing. The only year one-period time range, 12 months, and data domination on the manufacturing company, as well as dynamics changes on the company's website, suggests future research to expand the data acquiring for the analysis by including all IDX listed companies. Advance the time range periods is necessary to examine the effect of corporate governance mechanisms on IFR levels, and also understand the development of IFR practices from period to period, especially in the Indonesian context company.

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