

INTERNET FINANCIAL REPORTING: THE CASE OF PHILIPPINE BANKS

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ABSTRACT

The purpose of this research is to evaluate the extent of internet financial reporting (IFR) of Philippine banks. Used as samples were top commercial banks and thrift banks operating in the country considering their total assets as of March, 2012 as published by the Bangko Sentral ng Pilipinas in its website. Financial information in the websites of the sampled banks were evaluated during the third quarter of 2012. The study revealed that the quality and extent of IFR of Philippine commercial banks is “average” based on their IFR index score of 44.50 while thrift banks posted a below average IFR index score of 21.56 resulting to a highly significant difference between bank types. Among the four evaluation criteria used, the subject-banks’ content disclosure provides the highest percentage contribution to their IFR index scores as this is the main focus of their financial reporting. Among the components of content disclosure, corporate information, chairman’s report and the auditor’s report emerged as the top three often included in the financial disclosure of the subject-banks while vision statement and press release are the components often updated by both bank types in their websites with the commercial banks notably updating more frequently compared to thrift banks. Relative to technology, online feedback is the most common component in the banks’ website while link to homepage is the most usual user support feature relative to the bank’s financial reporting practice. Lastly, asset size and bank type were found to have a high significant relationship with the extent of IFR.

Keywords: internet financial reporting; commercial banks; thrift banks; asset size; bank type

INTRODUCTION

Internet financial reporting (IFR) refers to the use of a company’s website to distribute information about its financial performance. Since IFR is becoming a fast growing phenomenon, competitive companies around the globe publish their

corporate financial information on the internet. The banking industry is not an exception. This online disclosure has the objective of enabling creditors and investors to draw an informed conclusion about the company’s financial position. However, IFR is voluntary in nature. In

the Philippines just like in other countries, there are no specific regulations on IFR; thus, there is disparity in the IFR practices among banks.

With the advent of IFR, traditional paper-based corporate reporting among banks have become less timely and less useful to decision makers. Electronic-based reporting removes the confines of paper-based reports allowing banks to benefit from cost saving and to improve their financial reporting strategies thru these new technologies. On the other hand, users benefit by getting financial information easily and with more breadth and depth as the website can be used to open new opportunities for better and more appropriate information presentation. However, there are issues relating to the bank website as communication medium such as its information readability, usability, and understandability as well as its security; thus, making IFR more complicated than a hardcopy channel. In the coming years, IFR is expected to be an important tool among banks in disclosing valuable information to their users considering the important role of internet technology to the people's lives.

Some of the recent empirical studies examined IFR in different countries along the different industry sectors, to wit: Malaysia (Ali Khan and Ismail, 2012; Homayoun and Rahman, 2010); Ghana (Agyei-Mensah, 2012); Turkey (Turel, 2010); Indonesia (Almilia, 2009; Budisusetyo and Almilia, 2008); Bangladesh (Khan, et. al., 2009); Ireland (Abdelsakam and El-Masry, 2008); Cyprus (Andrikopoulus and Diakidis, 2007); United Kingdom (Abdelsalam, et. al., 2007); Jordan (Momany and Al-Shorman, 2006); Thailand (Davey and Homkajohn, 2004); New Zealand (Oyelere et. al. 2003); and Portugal (Rodrigues and Menezes, 2003). Relative to this, there has not been even a single study on IFR in the Philippines. Thus, this study is therefore the first of its kind in the country.

Determining the IFR practices of Philippine banks is important to bank creditors and investors since the findings of the study would make the stakeholders more aware of the importance of financial information being disclosed by the banks on their websites. Such financial information, if properly analyzed, can serve as their yardstick in choosing the banks that they would be dealing business

with. On the other hand, the management of the concerned banks would realize that IFR, in addition to the traditional paper-based corporate reporting, is a timely and more useful tool as they achieve their business goals and objectives. Since this is the first local study of its kind, regulatory authorities and other concerned agencies could make use of the findings of this study as baseline data in drawing up plans and policies on how IFR reporting by banks can be regulated.

This study examined the IFR practices of top commercial and thrift banks currently operating business in the Philippines. Specifically, this study investigated the quality of IFR of these banks in terms of content, timeliness, technology, and user support. The study likewise concluded the association of bank type and bank size with the extent of voluntary disclosure of IFR.

METHODS

The websites of top banks in the Philippines were used by the researchers as the main source of information since the study evaluated their online financial information disclosures. The top 25 commercial banks and top 39 thrift banks operating in the country based on total

assets as of March, 2012 as published by the Bangko Sentral ng Pilipinas in its website, were used as samples. Financial information in the websites of the sampled banks were evaluated during the third quarter of 2012 using the IFR index developed by Cheng et. al. (2000) who devised the framework from three stages of website financial reporting as identified by Lymer (1999). Further, a checklist instrument divided into four parts and assigned the following weights: content (40%); timeliness (20%); technology (20%); and user support (20%) was used by the researchers to determine the IFR score of the subject-banks. After the IFR index scores were computed, the data were subjected to the following statistical techniques/ tools: frequency counts and percentage; ranking; chi-square test; f-test; t-test; and regression analysis. The data were analyzed using the Statistical Package for Social Science version 12.

RESULTS AND DISCUSSION

This part of the paper presents, analyzes, and interprets the data gathered from the website evaluation conducted by the researchers. For clarity of presentation and consistency in the discussion, the

data are presented according to the objectives of the study.

Banks Under Study

Of the top 25 commercial banks, only 18 of them were included in the evaluation since the remaining seven banks were found to be foreign commercial banks operating in the country. Only banks with main headquarters located in the country were considered for this study. On the other hand, 27 of the 39 thrift banks with asset size surpassing the one-billion mark as of the March 2012 cut-off period were examined as to their financial disclosures. Twelve thrift banks were excluded from the evaluation since the five thrift banks equivalent to 13 percent of the total subject-banks have no websites while the other seven banks equivalent to 18 percent of the top thrift banks have financial information incorporated in their mother-banks (commercial banks). The study revealed that all commercial banks use the web to present their financial information to their target users while some thrift banks have not yet tapped the widespread effect of internet technology to communicate their financial information to their clients and investors.

Quality of Internet Financial Reporting (IFR) Disclosure

To evaluate the quality of IFR of Philippine banks, four index criteria were used. First is content (40%), which examined the presentation of the components of financial information and the design of these reports on web pages (e.g. PDF or HTML); second is timeliness (20%) which examined the existence and frequency of the banks' press releases, unaudited latest quarterly results, vision statement and stock quotes; third is technology (20%) which evaluated the extent and manner the banks utilize the Internet-based reporting to enhance the communication of information to stakeholders; and last is user-support (20%) which determined if the banks' IFRs provide search and navigation tools for different types of interested users.

The study revealed that Philippine commercial banks have “average” quality and extent of IFR based on their IFR index score of 44.50 while thrift banks, with their IFR index score of 21.56 are below average in terms of extent and quality of IFR; thus, posting a highly significant difference between bank types (Table 1). This implies that the IFRs of

commercial banks are better presented than those of the thrift banks. The fact that commercial banks offer a broader spectrum of services than thrift banks, and are presumed to have more clients, extensive financial reporting is needed to meet the objectives of each interested user. This parallels the findings of

Homayoun and Rahman (2010) that large firms like commercial banks are generally well-established and they can afford to provide detailed comprehensive information without the fear of their information being misinterpreted resulting in negative investor reaction.

Table 1. Comparison of IFR Index Scores Between Bank Types

| Index | Type of Bank | | t-value | t-tabular | p-value | Significance |
|--|--------------|---------------|---------|-----------|---------|--------------------|
| | CB | TB | | | | |
| Content Disclosure (40%) | 20.22 | 9.11 | 7.60 | 2.02 | <0.001 | Highly Significant |
| Disclosure of Timely Information (20%) | 8.44 | 4.22 | 3.95 | 2.02 | 0.0003 | Highly Significant |
| Technology Provided on Website (20%) | 2.50 | 1.85 | 1.69 | 2.02 | 0.10 | Not Significant |
| User Support Provided on Website (20%) | 13.33 | 6.37 | 7.80 | 2.02 | <0.001 | Highly Significant |
| IFR Index Score | 44.50 (A) | 21.56 (BA) | 8.41 | 2.02 | <0.001 | Highly Significant |

Legend: IFR Score Range and Verbal Interpretation

1 – 20 = Extremely Poor (EP)

21 – 40 = Below Average (BA)

41 – 60 = Average (A)

61 – 80 = Above Average (AA)

81 – 100 = Excellent (E)

It can also be noted that in the areas of content disclosure, timeliness, and user support, high significant differences exist between bank types. These differences are expected considering the exigency of serving the commercial banks' more voluminous and diverse customer needs in comparison to the extent of services offered by thrift banks. Similar to the study of Davey and Homkajohn (2006) which revealed that most companies tend to focus more on the areas of content disclosure and user support than timeliness and technology. The study also found out that both bank types give similar consideration to the aforementioned components of IFR since the primary purpose of this financial reporting is to disseminate information to their target users. Thus, content and information and how said information can be appropriately accessed by the end users are given primordial importance by the banks. However, it can be noted that bigger banks, in general, are making more extensive disclosures compared to smaller banks. On the other hand, it was found out that the technology provided on the website by the subject banks does not differ between bank types. This implies that in this era where advancement in

computer technology is the byword, bigger banks still do not fully maximize the use of technology despite their having the means to adopt this. The use of relevant technology in the websites of commercial banks and by thrift banks still did not manifest significant differences. This implies that it really takes time for an organization, whether big or small, to fully adopt the wonder of technology. Similarly, the study of Budisusetyo and Almilia (2008) also divulged that firms usually do not fully utilize the technology available when presenting financial information to their users.

Table 2 shows the comparison of percentage contribution of IFR index criteria to IFR index scores of both bank types. It can be noted that among the four criteria, content disclosure has the highest percentage contribution to subject-banks' IFR scores as this is the main focus of their financial reporting. Bollen et. al. (2008) conceded that the primary objective of internet investor relations disclosure should be to provide investors with financial information to make capital allocation decisions. On the contrary, the criterion of disclosure relating to technology was given the least

consideration in financial reporting by both bank types.

Table 2. Comparison of Percentage Contribution of IFR Index to IFR Index Scores Per Bank Type

| Type of Bank Index | Percentage Contribution | Std. Dev. | f-value | f- tabular | p-value | Significance |
|--|----------------------------|--------------|---------|---------------|---------|--------------------|
| <i>Commercial Bank (CB)</i> | | | | | | |
| Content Disclosure (40%) | 45.98 | 5.00 | 179.19 | 2.74 | <0.001 | Highly Significant |
| Disclosure of Timely Information (20%) | 18.00 | 6.37 | | | | |
| Technology Provided on Website (20%) | 5.50 | 2.64 | | | | |
| User Support Provided on Website (20%) | 30.53 | 6.93 | | | | |
| <i>Thrift Bank (TB)</i> | | | | | | |
| Content Disclosure (40%) | 40.54 | 15.04 | 41.56 | 2.69 | <0.001 | Highly Significant |
| Disclosure of Timely Information (20%) | 19.39 | 10.38 | | | | |
| Technology Provided on Website (20%) | 9.59 | 6.12 | | | | |
| User Support Provided on Website (20%) | 30.47 | 9.84 | | | | |

It can be gleaned from Table 3 that among the components of content disclosure, the top three often included in the financial disclosure of the subject-banks are corporate information, chairman's report, and the auditor's report. These components show the summary report of the condition and performance of the banks both for the previous years and the current year. Corporate information narrates the brief background of the bank's profile like history, number and quality of its resources (human, financial and physical), organizational structure,

On the other hand, past information on share price and on dividend history are given the least importance in the presentation. Since information on share history can be accessed in the local stock exchange, banks possibly opted against its presentation on their website. It can be noted further in the table that even if both

services offered, its performance and its reputation in the banking industry. On the other hand, the chairman's report discusses the overall performance of the bank for the past year and the forward-looking statements addressed to stakeholders while the auditor's report shows the auditor's opinion on the fair presentation and disclosure of financial statements within the applicable financial reporting framework. Similar to the study of Khan, et. al. (2009), these three components of content disclosure are all visible in their 12 sample companies in Bangladesh.

bank types have generally similar components disclosed in their financial information, the extent of disclosure varies significantly as commercial banks obviously provide a more extensive disclosure on these components in comparison with the practice of thrift banks.

Table 3. Comparison of Frequency and Percentage Distribution of Disclosure of Financial Information Between Bank Types

| Component of Disclosure | Commercial Bank | | Thrift Bank | | All Banks | |
|---|-----------------|--------|-------------|-------|-----------|-------|
| | F | % | F | % | F | % |
| Complete set of financial information | 12 | 66.67 | 6 | 22.22 | 18 | 40.00 |
| Financial highlights | 16 | 88.89 | 7 | 25.93 | 23 | 51.11 |
| Chairman's report | 18 | 100.00 | 7 | 25.93 | 25 | 55.56 |
| Auditor's report | 18 | 100.00 | 7 | 25.93 | 25 | 55.56 |
| Stakeholder information | 15 | 83.33 | 3 | 11.11 | 18 | 40.00 |
| Corporate information | 18 | 100.00 | 21 | 77.78 | 39 | 86.67 |
| Social responsibility | 14 | 77.78 | 8 | 29.63 | 22 | 48.89 |
| Annual report | 18 | 100.00 | 6 | 22.22 | 24 | 53.33 |
| Quarterly report | 11 | 61.11 | 2 | 7.41 | 13 | 28.89 |
| Past information on share price history | 3 | 16.67 | 0 | 0.00 | 3 | 6.67 |
| Past information on dividend history | 5 | 27.78 | 1 | 3.70 | 6 | 13.33 |

t-value: 5.19; t-tabular: 2.23; p-value: 0.00041

Significance: Highly Significant

It is apparent in Table 4 that the banks' vision statement and press releases are the components often updated by both bank types in their websites though commercial banks tend to make more frequent updates than thrift banks. This is because these items are generally text-only documents that can be added to the websites without altering or formatting the subject (Budisusetyo and Almilia, 2008). Moreover, press releases are adopted to help companies get valuable publicity via electronically spreading their message which can boost the company's visibility to get more

customers and investors. After all, website press releases substantially help in disseminating important information.

Among the components of technology provided on the web sites of both bank types, online feedback is the most common (Table 5). Online feedback allows the users to send messages through e-mails to identify investor data needs that can be better met through electronic distribution. The feedback gathered may be utilized by banks to identify suggestions for improvements to increase site traffic and ease of use (Budisusetyo and Almilia, 2008).

Table 4. Comparison of Frequency and Percentage Distribution of Disclosure of Timely Information Between Bank Types

| Component of Disclosure | Commercial Bank | | Thrift Bank | | All Banks | |
|------------------------------------|-----------------|-------|-------------|-------|-----------|-------|
| | F | % | F | % | f | % |
| Press release | 15 | 83.33 | 16 | 59.26 | 31 | 68.89 |
| Unaudited latest quarterly results | 9 | 50.00 | 1 | 3.70 | 10 | 22.22 |
| Stock quote | 6 | 33.33 | 3 | 11.11 | 9 | 20.00 |
| Vision statement | 17 | 94.94 | 20 | 74.07 | 37 | 82.22 |
| Disclaimer | 3 | 16.67 | 0 | 0.00 | 3 | 6.67 |
| Charts of future forecast | 3 | 16.67 | 0 | 0.00 | 3 | 6.67 |

Chi Square Value: 77.58

Probability Value: <0.001

Significance: Highly Significant

Table 5. Comparison of Frequency and Percentage Distribution of Disclosure of Technology Provided on Website Between Bank Types

| Component of Disclosure | Commercial Bank | | Thrift Bank | | All Banks | |
|--------------------------|-----------------|-------|-------------|-------|-----------|-------|
| | F | % | F | % | f | % |
| Download plug in on spot | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Online feedback | 17 | 94.44 | 23 | 85.19 | 40 | 88.89 |
| Presentation slides | 3 | 16.67 | 0 | 0.00 | 3 | 6.67 |
| Multimedia technology | 0 | 0.00 | 1 | 3.70 | 1 | 2.22 |
| Analysis tools | 1 | 5.56 | 0 | 0.00 | 1 | 2.22 |
| Advance features (XBRL) | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |

Chi Square Value: 11.68

Probability Value: 0.039

Significance: Significant

While technology is the least considered among the four criteria of IFR of both bank types as revealed in the previous discussion, it can be noted that there are few commercial banks which attempted to enhance their presentation of financial information by using presentation slides and analysis tools. This practice has led to the significant difference between commercial and thrift banks relative to the extent of use of the technology criterion component. Specifically, none of the banks provide download plug-in spot and XBRL as advanced tools in disclosing financial information on the internet. Although XBRL is emerging, and its benefits such as shortening implementation times and

alleviating errors are quite obvious (Budisusetyo and Almilia, 2008), still no bank among the samples had been found to be using the XBRL format to create their websites.

It can be gleaned from Table 6 that link to homepage is the common component of user support feature of the websites relative to the bank's financial reporting practice. Links provide the users easy access to pages within a website. This is considered the best practice in managing a website since it affords the users ease in navigation when moving to and from the home page in search of related information (Gold, 2003; Krug, 2000; Shelly, 2002; and Van Duyne, 2003)

Table 6. Comparison of Frequency and Percentage Distribution of Disclosure of User Support Provided on Website Between Bank Types

| Component of Disclosure | Commercial Bank | | Thrift Bank | | All Banks | |
|-------------------------|-----------------|--------|-------------|-------|-----------|-------|
| | F | % | F | % | F | % |
| Help and FAQ | 14 | 77.78 | 5 | 18.52 | 19 | 42.22 |
| Link to homepage | 18 | 100.00 | 26 | 96.30 | 44 | 97.78 |
| Link to top | 4 | 22.22 | 1 | 3.70 | 5 | 11.11 |
| Site map | 7 | 38.89 | 5 | 18.52 | 12 | 26.67 |
| Site search | 11 | 61.11 | 6 | 22.22 | 17 | 37.78 |

Chi Square Value: 115.68

Probability Value: <0.001

Significance: Highly Significant

It can also be noted that that there are other components of this criterion which are extensively used by commercial banks but which thrift banks tend to use on a limited basis. These are the “Help and FAQ” and “Site Search” components set the practices of the bank types significantly apart. FAQs are listed questions and answers, all supposed to be commonly asked in some context, and pertaining to a particular topic. FAQ pages rank in importance with home pages and are integral part of good navigation and product presentation for most websites. Users can click the FAQ button for them to quickly get an overview of the company’s product or service as well as answers to their more specific questions. Moreover, a well-designed FAQ page can improve users’ understanding of the information and services offered and can reduce demands on support staff (Lynch, 1999). Gold (2003) pointed out that websites should provide “different doors” to the same information and accommodate different user preferences through site search capability. On the other hand, Nielsen (2000) recommends that a search option should be easily available from every single page of a site. Unfortunately, a

large number of thrift banks still often overlook this functionality despite its lasting benefits such as reducing the cost for call center support, increasing revenue by getting people where they need to go quickly and easily and building customer retention and trust thru relevant content. Overall, Cappel and Huang (2007) agree that “Help and FAQ” and “Site Search” are positive “proactive” screen elements that can aid users in understanding and navigating a site.

Relationship of Asset Size and Bank Type to the Extent of IFR Disclosure

The two independent variables considered in the study were bank type and asset size. These two variables were tested to determine their contribution to the extent of IFR disclosure. As shown in Table 7, both variables have a highly significant relationship to the extent of disclosure. Since commercial banks have more financial information to disclose as they offer a broader scope of services and serve various clients than do thrift banks, then it can be surmised that they have a greater responsibility of informing their clients through a much

comprehensive financial disclosure than the latter.

Table 7. Regression Results on the Determinants of IFR Index Score with Asset Size and Bank Type as Independent Variables

| Variables | Beta Coefficient | t-value | p-value | Significance |
|----------------------------------|------------------|---------|--------------------|--------------------|
| Asset size (in Billion pesos) | 0.02 | 3.05 | 0.00394 | Highly Significant |
| Bank Type | 16.63 | 5.13 | 0.00001 | Highly Significant |
| Significance of regression model | | | | |
| Multiple R | | 0.83 | Highly Significant | |
| R-Square | | 0.69 | | |
| f-value | | 46.89 | | |
| Probability value | | 0.01 | | |
| Intercept | | 4.68 | | |

Model:

$$Y \text{ (IFR Score)} = \text{Intercept} + X1 \text{ (Asset size)} + X2 \text{ (Type of Bank)}$$

$$Y \text{ (IFR Score)} = 4.68 + 0.02 X1 + 16.63 X2$$

As to asset size, it can be concluded that the larger the asset size, the more extensive the reporting that banks do. This is parallel to the findings of Almilia (2009) who noted that asset size is an important determinant of corporate disclosure and that it influences the voluntary utilization of the internet for financial reporting. The same argument was advanced by Ezat and El-Masry (2008) who found out that larger companies are more likely to disclose

information on their websites since the cost entailed by collecting and disseminating information through the web are likely to be afforded by the larger companies only. However, it appears that these larger companies are able to derive scale benefits from voluntarily using the internet as medium for financial and sustainability disclosure and are less likely to be competitively disadvantaged by such incremental reporting. It can also be possible that

larger companies have to face higher information asymmetry as their clients' demands are more diverse which bring them toward extensive financial reporting. In addition, Watts and Zimmerman (1986) stressed that large firms are more visible in the economy and

they are more likely to attract the attention of regulatory agencies that can create possible pressure for them to disclose larger amounts of information than what the smaller firms are required to do.

CONCLUSIONS

The increasing usage, multimedia capability and the capacity for interactive communication of the internet creates a new channel for the dissemination of corporate financial information. The global access of financial reports on the internet could produce further impetus for national and global standards in financial reporting.

This study has a two-fold objective of investigating the quality of IFR of Philippine banks in terms of content, timeliness, technology, and user support and finding the association of bank type and bank size with the extent voluntary disclosure of IFR. The sample banks consisted of 18 commercial banks and 27 thrift banks from the list of top Philippines banks based on their total assets as of March 2012. Findings

indicate that the quality of the IFR of top commercial banks in the Philippines is significantly more extensive compared to the quality of the IFR of thrift banks. This implies that bigger banks (commercial banks) with an "average" IFR index score rating are voluntarily disclosing more financial information to their clients and investors than smaller banks (thrift banks) which garnered a "below average" rating. Moreover, commercial banks are found to have more extensive presentation of financial information than thrift banks in terms of content, timeliness and user support while there exists no significant difference on the technology provided. Among the four criteria of IFR index scoring, content disclosure has the highest contribution to banks' IFR index scores being the focal point of their financial report. On the

other hand, technology support has the least contribution percentage.

Among the components of content disclosure, the top three which are often included in the financial disclosure of the subject-banks are corporate information, chairman's report, and auditor's report while vision statement and press release are the components often updated by both bank types in their websites. However, commercial banks do more frequent updates of these components than thrift banks. On the other hand, online feedback is the most common component of technology provided on the websites of both bank types while link to homepage is the most common user support feature of the website relative to the bank's financial reporting practice.

The results of this research also show that asset size and bank type are determinant factors of the extent of IFR which leads to the conclusion that as the

bank becomes bigger (in asset size or bank type where commercial banks are considered to be the bigger bank) voluntary disclosure of financial information in the internet tends to become more extensive.

The researchers recommend that regulatory bodies like the Bangko Sentral ng Pilipinas should establish standard guidelines on the IFR of banks to streamline the internet reporting activities of all banks operating in the country. Issuance of specific guidelines as to what items need to be disclosed and the minimum requirement as to the quality of disclosure relative to financial information should be enforced. Future studies may investigate users' perception on IFR practices to identify the gap between the users' expectations and the banks' current practices. Likewise, additional research is encouraged along IFR practices in other sectors

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