BOARD COMPOSITION, OWNERSHIP CONCENTRATION, AND VOLUNTARY INTERNET DISCLOSURE BY MSM-LISTED COMPANIES

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Abstract

The purpose of this paper is to examine the determinants and characteristics of voluntary internet disclosures by listed companies in Oman. This paper uses archival data from listed companies on Muscat Securities Market (MSM). Binary Logistic Regression analysis is used to examine the determinants of internet financial reporting. The results of this study reveal that ROA is one of the factors that impacts internet financial reporting. Also, the results reveal that ownership concentration has a negative effect on the internet financial disclosure. The paper provides insights into corporate internet disclosures in the GCC countries that will benefit all stakeholders with an interest in corporate reporting in this important region of the world.

Keywords: Internet Financial Reporting, Voluntary Internet Disclosure, Ownership Concentration, ROA, Oman, GCC

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1. Introduction

This paper investigates and reports on the extent, nature and determinants of internet financial reporting (IFR) by companies listed on the stock exchanges in Oman. While IFR is fast becoming the norm in most western countries, there is little empirical evidence of the phenomenon in Gulf Cooperation Council (GCC) countries. Until recently, hard (paper) copies have been the primary means for communicating financial information to shareholders and other interested corporate stakeholders. Technological advances have made the internet a useful, timely and cost-effective tool for the communication of this information to stakeholders. The internet has the potential to revolutionize financial reporting. Companies can include the traditional annual reports together with additional financial and non-financial information in multiple formats (Jones and Xiao, 2004).

Questions persist as to whether corporate organizations in the GCC are availing themselves of the opportunity provided by the internet to communicate financial information to their stakeholders. While the use of the Internet for the communication of financial information raises a variety of challenging issues, there is little doubt about its benefits. This paper is an important first step in gauging the extent to which such benefits are being captured in the GCC. Given the increasing importance of IFR and the lack of empirical study on IFR practices in the Middle East, this paper provides an important contribution to filling the gap in our knowledge of this subject. This is of particular importance in a time when there is so much interest in investment opportunities in the GCC countries where rapid economic growth is fuelled by booming oil revenues.

Evidence of IFR practices in various countries have been presented by a number of academic and professional studies – see, for example, Craven and Marston (1999) and Gowthrope (2004) - UK, Deller et al. (1999) - US,

UK and Germany, Gowthorpe and Amat (1999) – Spain, Hedlin (1999) – Sweden, Lymer et al. (1999) – International Comparison, Pirchegger and Wagenhofer (1999) - Austria and Germany, Marston and Polei (2004) – Germany, Trites (1999) - US and Canada, Oyelere et al. (2003), Fisher et al. (2004) and Laswad et al. (2005) - New Zealand, Marston (2003) - Japan, Xiao et al. (2004) - China, Smith and Peppard (2005) – Ireland, Khadaroo (2005) – Malaysia, Chan and Wickramasinghe (2006) – Australia, Ismail and Sobhy (2009) – Egypt, Salawu (2009) – Nigeria, Mohamed (2010) – Middle East. They indicate the growing use of the Internet for the corporate dissemination of information, including providing annual reports on the Internet, and that the extent and sophistication of IFR practices varies across countries. The objective of this paper is to study IFR practices in the GCC. The paper provides evidence of the extent and determinants of IFR in one of the six GCC countries, namely Oman. The understanding of IFR practices is important for standard setting purposes.

The objective of this paper is to examine internet financial reporting practices and determinants in companies listed in Muscat Securities Market (Oman). The rest of this paper is structured as follows. A review of relevant literature is provided in the next section. The proposed research methodology is discussed in Section 3. Section four provides analyses and discussions on the extent, nature and determinants of IFR by companies listed in the two stock exchanges. Summary and conclusions are presented in the final section.

2. Literature Review

2.1 Background

The Internet provides a useful communication tool for corporate organizations. One of the main benefits of IFR is the potential for large savings in the cost of production and distribution of financial information. The Internet allows companies to reach a much wider range of stakeholders at a relatively lower cost. The use of IFR also leads to a reduction in incidental requests from non-shareholder financial statement users (Allam and Lymer, 2002; SEC, 2002, 2003a,b; Khadaroo, 2005) . The literature also documents a number of other benefits that may accrue from IFR (Baker and Wallage, 2000; Ettredge *et al.*, 2001; Debreceny, *et al.*, 2002; Wagenhofer, 2003; Jones and Xiao, 2004; Boritz and No, 2005). These include more equitable information dissemination among stakeholders as a result of the improved accessibility of the information. With IFR users can choose to access information that meets their specific needs as the Internet allows non-sequential access to information through the use of hyperlinks, interactivity and search facilities. IFR also presents companies with the opportunity to provide more information than is available in annual reports. The internet provides an opportunity for going beyond what is available in hard copy corporate financial statements to communicate additional financial information to users, possibly in real-time and on an interactive basis (McCafferty, 1995; Louwers *et al.*, 1996; Green and Spaul, 1997; Trites and Sheehy, 1997; Trites, 1999; FASB, 2000; Ettredge *et al.*, 2002; Wickramasinghe, 2006). IFR provides corporate organizations with a real opportunity to extend financial disclosure beyond the reproduction of a hard copy annual report and improve on the timeliness, scope, and interactivity of financial reporting, with multimedia, such as sound, animation and video, being used to potentially increase the understanding of information (Louwers *et al.*, 1996; Ravlic, 2000; Wickramasinghe and Lichtenstein, 2006). These developments have a great potential impact on users (Wallman, 1997; Green and Spaul, 1997; Gowthrope and Flynn, 2001).

A number of IFR-related issues and challenges have been noted in the literature. It is possible that the dividing line between current financial information used by management and historical audited financial information made available to public users of financial information could be erased by online, real-time reporting (Green and Spaul, 1997; Hodge, 2001; Oyelere, 2003), with auditors being possibly required to provide opinion on such hitherto internal financial information (Trites and Sheehy, 1997; Lymer and Debreceny, 2003; Khadaroo, 2005). If IFR is installed as the only mode for communicating financial information it is likely that access to such information will be restricted to only those who possess costly computer equipment and skills. Hence, to ensure equitable access to financial information it will be necessary to ensure that the information being reported through corporate websites is also provided through other media of financial information disclosure (McCafferty, 1995). This could be seen as unnecessary duplication and may result in even greater costs in the Middle East where financial information is commonly disseminated in both English and Arabic.
Additional issues and challenges for IFR include possible errors in the extraction or re-keying process, which may affect the reliability and integrity of the financial information; Generally Accepted Accounting Practice (GAAP) implications of IFR; the use of the corporate websites for many diverse purposes, which may make the location of financial information difficult; and the acceptability of Internet financial reports as alternatives to hard copy annual reports among users of corporate financial information (Laswad *et al.*, 2000).

By far the greatest challenge faced in the IFR environment is that of ensuring the security and integrity of the financial information published on corporate websites. Apart from possible errors in the publishing process, materials published on the web are susceptible to all manners of security risks. Financial information could, post-publication, be knowingly or unknowingly altered by parties both external and internal to the organization. There is a real risk that critical decisions could be made by users of financial information based on inaccurate financial information gleaned from corporate websites. The extent to which these issues are dealt with is likely to determine the long-term usefulness of the Internet as a medium of corporate financial information dissemination.

2.2 Hypotheses Development

Very little, if any, evidence exists on the extent and nature of IFR practices in the GCC countries. It is predicted that IFR is likely to overtake the hard-copy print form of financial information disclosure in the near future. It is therefore surprising that evidence on the variety of issues associated with this form of financial disclosure is currently not being publicly discussed. Such evidence will depend on the outcome of thorough, in-depth investigation and analysis, such as is being preliminarily undertaken in the current study. Therefore, considering the importance of IFR in disseminating financial information and the little research of these practices in emerging economies, the objective of this paper is to study the extent, practices and determinants of IFR in Oman.

Recent studies have provided evidence on the factors motivating the IFR behaviour of companies around the world. Given the voluntary nature of IFR, these studies sought to establish the reason why companies engage in IFR and the extent of such engagement. The majority of these studies have found corporate size to be a major factor, with IFR likely to provide greater economies of scale cost savings for larger firms (Ashbaugh *et al.*, 1999; Craven and Marston, 1999; Pirchegger and Wagenhofer, 1999; Debreceny *et al.*, 2002; Ettredge *et al.*, 2002; Oyelere *et al.*, 2003; Fisher et al., 2004; Chan and Wickramasinghe, 2006). Evidence on other variables examined is largely inconclusive.

Profitability

It is suggested that firm profitability can be regarded as an indicator to good management, as management tends to disclose more information when the rate of return is high. Hence, profitable companies have extra financial resources to disseminate financial information voluntary and have more incentives to disclose to both the stakeholders and public that they are more profitable than their counterparts in the same industry. This can be justified by the agency theory, where managers of the highly profitable companies disseminate more information on their companies' website to achieve personal advantages such as the marinating their positions and justifying compensations (Singhvi and Desai, 1971; Wallace et al., 1994; Haniffa and Cooke, 2002). Furthermore, signalling theory suggests that profitable companies have an incentive to disclose more information, to signal the firm's profitability to investors and to raise capital at the lowest price (Oyelere et al., 2003; Marston and Polei, 2004). However, there are mixed results with some studies revealing significant relationship between firm profitability and internet financial disclosure (Ashbaugh et al., 1999; Ismail, 2002; Debreceny and Rahman, 2005), while other studies find no significant relationship between profitability and online financial disclosure (Larra´n and Giner, 2002; Oyelere et al., 2003; Marston and Polei, 2004; Xiao et al., 2004; Momany and Al-Shorman, 2006; Ezat and El-Masry, 2008). Thus, the third research hypothesis is:

H_1. There is a significant relationship between profitability and IFR

Firm Size

Several studies examine the relationship between firm size and voluntary disclosure (Malone et al., 1993; Ahmed and Nicholls, 1994; Raffournier, 1995; Haniffa and Cooke, 2002; Almilia and Surabaya 2009; Aly et al 2010). It is argued that stock market pressure forces large corporations to disclose more information on their websites to assist them in increasing their outside capital to enhance their performance. Hence, large corporations are more able to access financial markets through disclosing more information online (Bonso´n and Escobar, 2002). Large corporations can disclose information on the internet for lower costs as they have the resources to do so. Agency theory implies that large firms exhibit higher agency costs due to the information asymmetry between market participants (Jensen and Meckling, 1976). To reduce these agency costs, larger firms disclose a large flow of corporate information. While, according to the political cost hypothesis, large firms attract more financial analysts putting firms under higher pressure because they are more publicly visible (Boubaker et al., 2012). Due to the industrial competition between companies, smaller firms tend to hide their important information (Almilia

and Surabaya 2009, Marston 2003). Moreover, large companies always have a larger number of products and their distribution networks are very complex than smaller firms. Thus, information disclosure is required more in large companies (Marston 2003; Aly et al 2010).

Empirical findings suggest a significant relationship between firm size and online disclosure (Hossain *et al.,* 1995; Ashbaugh et al., 1999; Craven and Marston, 1999; Pirchegger and Wagenhofer, 1999; Brennan and Hourigan, 2000; Bonso´n and Escobar, 2002; Debreceny et al., 2002; Ettredge et al., 2002; Larra´n and Giner, 2002; Oyelere et al., 2003; Marston and Polei, 2004; Xiao et al., 2004; Garcı´a-Borbolla et al., 2005; Bollen et al., 2006; Sriram and Laksmana, 2006; Ezat and El-Masry, 2008). This prompts the second research hypothesis:

H_2. There is a significant relationship between firm size and IFR

Industry Type

According to the signalling theory, companies within the same industry tend to adopt the same level of disclosure. When a company within an industry tends not to follow the same disclosure practices, including internet disclosures, as others in the same industry, then it may be interpreted as a signal that the company is hiding bad news (Craven and Marston, 1999). The difference in disclosure practices between different industries may be due to different industries having different proprietary costs of disclosure and some may be more technologically advanced than others (Ismail, 2002). Several studies examine the relationship between the type of business activity and internet financial disclosure. The findings are mixed with some studies revealing a significant relationship between internet financial disclosure and industry type (Ashbaugh et al., 1999; Craven and Marston, 1999; Brennan and Hourigan, 2000; Bonso´n and Escobar, 2002; Garcı´a-Borbolla et al., 2005; Ismail, 2002; Oyelere et al., 2003, Ezat and El-Masry, 2008, Aly et al., 2010). However, others show insignificant relationship (Debreceny and Rahman, 2005; Larra´n and Giner, 2002; Trabelsi and Labelle, 2006). This leads us to the fifth research hypothesis:

H_3: There is a significant relationship between industry type and IFR

Ownership Concentration

Evidence on the effect of ownership structure of the degree of disclosure of information is mixed. It is found that companies with diffused ownership are more likely to disclose more information on their web sites to keep their shareholders well informed (Pirchegger and Wagenhofer, 1999; Oyelere et al., 2003; Marston and Polei, 2004; Kelton and Yang, 2008). This can be justified by the agency theory, where corporate disclosure is considered as a mean to controlling the agency costs arising from conflicts of interests between insiders and outside shareholders (Jensen and Meckling, 1976). In concentrated ownership, major shareholders are more able to obtain private information due to the relatively weak demand for public disclosure in comparison to companies with widely dispersed ownership (Boubaker at al., 2011). This may be more prevalent in civil law countries that are characterized by low legal protection environment of external investors (La Porta et al., 1998). Therefore, the fourth research hypothesis is:

H_4: There is a significant relationship between ownership concentration and IFR

Board Size

The board of directors is typically the governing body of the organization. Its primary responsibility is to make sure that the organization achieves the shareholders' goal. The board of directors has the power to hire, terminate, and compensate top management (Johnson et al. 2008). It is argued that large boards can help reduce the opportunistic behaviour by managers in terms of withholding information for their own interest and benefit (Samaha et al., 2011). Larger boards seems to be less efficient due to the slow pace of decision making and the difficulty in both arranging board meeting and reaching consensus. It is also argued that the CEO seems to have more dominant power when the board size is too large. (Jensen 1993; Yermack 1996; Eisenberg et al, 1998; Singh and Davidson, 2003; Cheng, 2008; Mohamed et al., 2013; Basuony et al., 2014). However, larger board could lead to more effective monitoring and reduce the opportunistic behaviour by managers. This in effect may

prevent the withholding of information by management. Previous studies find that corporate internet disclosure is positively associated with board size (Desoky and Mousa, 2009). Hence,

H_5: There is a significant relationship between board size and IFR

Board Independence

It is not only the size of the board that seems to have a governing effect; it is argued that the board composition in terms of the number of outside directors versus inside directors results in better monitoring. This argument is mainly based on the agency theory (Fama 1980; Demsetz and Lehn, 1985). Several studies find that corporate internet disclosure is positively associated with the number of outside directors on the board (Abdelsalam et al., 2007; Kelton and Yang, 2008; Desoky and Mousa, 2009). However, Samaha et al. (2011) find a negative relation between board independence and the degree of corporate internet disclosure by Egyptian listed companies. Thus, the sixth research hypothesis is:

H_6: There is a significant relationship between board independence and IFR

3. Methodology

The aim of this study is to investigate and document the extent and nature of IFR practices among firms listed in the Muscat securities market. The research methodology employed to accomplish this aim is presented in this section. The sample of the study consists of manufacturing and non-financial services firms that are publicly listed in MSM. Internet disclosure data are collected during the period from May to October 2013. Table (1) below shows the sample selected for each sector:

Table 1. Population and samples per sector

Sector	Manufacturing	Non-Financial Services	Total
	52	33	85
%	61.2%	38.8%	100%

Data regarding whether these companies have website or not were obtained via searching the names of these companies in internet search engines. Where corporate sites are available, we moved to the next stage of the data collection process by investigating the type of information provided at these sites. Four categories of information – company history/background, products/services, financial and other information – were of interest to us at this stage. The next stage of the data collection process involved querying the extent and nature of financial information provided on the corporate websites. Of interest are the types of financial information - that is, whether full financial statements and/or financial highlights; and the volume of financial information presented. This data collection approach is similar to the one used in Craven and Marston (1999), Deller et al (1999), Oyelere et al (2003), and Laswad et al (2005).

The objective of this paper is to examine internet financial reporting practices and its determinants in firms listed in Oman stock exchange (MSM), Table (2) shows the definition and measurement of these variables.

Table 2. Definition and measurement of variables

Symbol	Variable Definition	Measurement
Dependent Variables		
IFR	Internet Financial	If IFR exists = 1; If it does not = 0
Independent Variables (Determinants)		
ROA	Return on Assets	Net Income / Total Assets
FrmSize	Firm Size	Natural log of total assets
IndTyp	Industry Type	Manufacturing = 1; Non-financial Services = 2 2;
OwnCon	Ownership Concentration	Adding up all shareholding of 5% or more

BrdSize	Board Size	Total number of board members
BrdIndp	Board Independence	Number of non-executive members on the board / Board Size

Results and Discussion

4.1 Descriptive Analysis

Table 3 represents the descriptive statistics using minimum, maximum, mean and standard deviation for disclosure attributes (Panel A), while Panel B represents descriptive statistics for determinants of corporate internet disclosure as discussed in the literature review section.

A classification of "websiters" and "non-websiters" is provided in Table 4. Overall, 72 companies (85%) of Oman listed companies have English websites, while only 17 companies (20%) have Arabic websites. Generally, the proportion of website ownership appears good when compared with developed western countries such as the US, the UK, Australia and New Zealand (Lymer *et al.*, 1999; Oyelere *et al.*, 2003; Chan and Wickramasinghe, 2006).

Table 3. Descriptive statistics

	Min.	Max.	Mean	SD
Panel A:				
EWeb	0	1	0.85	0.362
AWeb	0	1	0.20	0.402
Investor Relation	0	1	0.12	0.324
Figures & Graphs	0	1	0.12	0.324
Email Link	0	1	0.84	0.373
Multimedia	0	1	0.73	0.447
CG Report	0	1	0.05	0.213
Company Information	0	1	0.81	0.393
Products & Services Information	0	1	0.84	0.373
Forward Looking Information	0	1	0.42	0.497
General Financial Information	0	1	0.40	0.493
IFR	0	1	0.44	0.499
Current Annual Report	0	1	0.39	0.490
Panel B:				
ROA	-0.408	0.506	0.047	0.114
IndType	1	2	1.39	0.490
Frmsize	14.980	22.683	18.952	1.530
Brdsize	5	11	7.34	1.570
OwnCon	0.111	0.999	0.708	0.213
BrdIndp	0.143	1.000	0.895	0.179

Table 4. Listed Companies With or Without English and Arabic Websites

	With Website		Without Website		Total
English Web	72	85%	13	15%	85
Arabic Web	17	20%	68	80%	85

Table 5 provides description of internet disclosure attributes. Overall, all companies provide Email link and product and services with (100%), 96 % of companies that provide information about the companies on their website. On the other hand, only 6 % of companies disclose corporate governance information and 14 % have a section for both investor relations and figures and graphs. While 86 % of companies use multimedia on their websites. The number of companies that use their website for internet financial reporting is 37 out of 72 (51%) and 46 % of the companies have the current annual report disclosed.

Table 5. Overall Internet Disclosure Statistics

Disclosure Attribute	Yes	%	No	%	Total
Investor Relation	10	14%	62	86%	72
CG Report	4	6%	68	94%	72
Email Link	71	99%	1	1%	72
Multimedia	62	86%	10	14%	72
Company Information	69	96%	3	4%	72
Products & Services Information	71	99%	1	1%	72
Forward Looking Information	36	50%	36	50%	72
Figures & Graphs	10	14%	62	86%	72
General Financial Information	34	47%	38	53%	72
IFR	37	51%	35	49%	72
Current Annual Report	33	46%	39	54%	72

4.2 Hypothesis Testing

For testing the six hypotheses (H_1-H_6), Logistic Regression is used to examine the determinants of IFR in Oman.

The following equation is used to test hypotheses two to six:

$$IFR = \alpha + \beta_1 ROA + \beta_2 FrmSize + \beta_3 IndTyp + \beta_4 OwnCon + \beta_5 BrdSize + \beta_5 BrdIndp + \varepsilon$$

Using Logistic regression to examine the determinants of IFR in the Oman stock market (MSM), as in the equations above, Where, Chi^2 = 13.407, Cox and snell R^2 = 0.146. The results in Table 6 show that one of the factors that has a positive significant impact on internet financial reporting in Oman is ROA where Wald = 2.978 (p-value = 0.084) at 10% level. This study is consistent with some studies revealing significant relationship between firm profitability and internet financial disclosure (Ashbaugh et al., 1999; Ismail, 2002; Debreceny and Rahman, 2005). This can be justified and supported by the agency theory, where managers of the highly profitable companies disseminate more information on their companies' website to achieve personal advantages such as the marinating their positions and justifying compensations (Singhvi and Desai, 1971; Wallace et al., 1994; Haniffa and Cooke, 2002). The other factor that has a negative significant effect on the internet financial disclosure is ownership concentration, where Wald = 4.750 (p-value = 0.029) at 5 % level. The result of this study is consistent with other studies which found that companies with diffused ownership are more likely to disclose more information on their web sites to keep their shareholders well informed (Pirchegger and Wagenhofer, 1999; Oyelere et al., 2003; Marston and Polei, 2004; Kelton and Yang, 2008). Firm size, industry type, board size and board independence are the other variables in our model that show insignificant effect on internet financial reporting.

Table 6. Logistic Regression Results

	Dependent Variable (IFR)			
	Coefficient	SE	Wald	Sig.
ROA	4.508	2.613	2.978*	0.084
FrmSize	0.021	0.183	0.014	0.906
IndTyp	0.535	0.509	1.101	0.294
OwnCon	-2.680	1.230	4.750**	0.029
BrdSize	0.234	0.165	1.998	0.157
BrdIndp	1.416	1.523	0.865	0.352
Constant	-2.767	3.382	0.669	0.413
Cox & Snell R	0.146			
-2 Log Likelihood	103.001			
Chi-Square	13.407 (df=6)			
N	85			

*Sig. at 10 % level
**Sig. at 5 % level

5. Summary and Conclusion

This paper investigates and reports on the extent and nature and determinants of IFR practices among companies listed in MSM. As there is little empirical study on IFR practices in the Middle East region this paper is an important contribution to filling the gap of the literature. The paper provides insights into IFR in the Middle East that will benefit all stakeholders with an interest in corporate reporting. Data has been collected and analysed on 85 companies listed on the stock markets in Oman. While 72 of these companies maintain websites, only 37 provide internet financial reporting on their websites. The majority of these companies use the PDF format to publish financial information and some companies use the internet to provide additional financial information, in the form of financial highlights. This study reveals a good use of the internet for financial reporting purposes in Oman. The results show that firm profitability and ownership concentration are the only two factors that significantly impact corporate internet disclosure in Oman.

The benefits to be derived from IFR in the modern era of globalisation and endemic market inter-linkages are likely to far outweigh the pecuniary costs. The current level of technological expertise and development in the Arabian Gulf is more than adequate for the creation, operation and maintenance of corporate websites for IFR purposes. Perhaps the "novelty" factor is the main factor responsible for the current low uptake of IFR among companies in Oman. This is likely to be generalisable to other countries in the Arabian Gulf region, and possibly the broader Middle East. If that is the case, the region is likely to witness an upsurge in IFR over the next few years and regulators and other governmental agencies, as well as other stakeholder groups will need to be prepared for this imminent development. Nonetheless, there is little by way of regulatory guidance or pronouncement on IFR in Oman and perhaps in most countries of the Middle East. This situation needs to be remedied in advance.

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