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### The Significance of Internet Based Financial Information Disclosure on Corporates' Shares in Indonesia

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**Abstract:** This research is meant to test the influence of Internet Financial Reporting which on the level of Internet based information disclosure on price and market frequency of corporates' shares. This research used 30 samples of company from 2014-2015. Those companies used as the samples were registered in Jakarta Islamic Index. This research employed simple regression analysis with two analysis models. The results of this research shows that the first model of Internet Financial Reporting affects significantly market frequency of corporates' shares, which significance value is smaller than alpha ( $0.000 < 0.05$ ). The second model of Internet Financial Reporting affects significantly price of corporates' shares, which significance value is smaller than alpha ( $0.001 < 0.05$ ). Based on the results, this research shows that Internet Financial Reporting can help investors to make investment decisions thus market's reaction on information in market share can be accelerated.

**Keyword:** Internet Financial report, Share Price, Share Frequency.

#### 1. INTRODUCTION

Fully disclosed information has an important role to portray management's transparency and accountability in performing business. Relevant information for making decision is information which is disclosed before its capacity to influence decision making get obsolete. Internet is assumed to provide the best and most in time information.

In investment market, useful information can make investors take actions which may influence investment redistribution that change the balance of market. Investors tend to respond recent information in capital market as their basis to make investment decisions and thus cause share prices in market. Fama (1970) state that shares will move when useful information enters the market. If there is not enough

information available, investors tend to make wrong decisions. That is because investors make less accurate projections on future possibilities on both risks and profits of their investments.

Signal theory explains that how company should give signals to financial report users. That signals are information on what a management has done to realize public wants. Signals may be in the form of promotions or other information that state a company is better than the others. Financial report should provide useful information for investors and creditors thus they can make such investment and credit decisions (Muid and Hargyantoro, 2012). There are some differences and similarities between accounting for the public sector and accounting for the commercial sector. Differences in the nature and characteristics of the public sector with the commercial sector can be seen by comparing several things: organizational goals, sources of financing, accountability, organizational structure, budget characteristics, and financial accounting (Lubis *et al.*, 2016). While the differences between the public sector and commercial sector in its financial statements are on the issue of objectives, income, expenses, budgeting, ownership, accounting basis, and entries used to record transactions within the organization. The similarities between public sector accounting and commercial sector accounting are, among other things, an integral part of the country's economic system, facing similar problems, namely scarcity of resources, equal management controls, planning, controlling accountability, generating the same product, Transportation, education, health, and other types of services, and are subject to the required laws and regulations (Gusnardi *et al.*, 2016). While the equations contained in the financial report between the public sector and the commercial sector are the same for decision making, as information to the user, and applying predetermined standards. Internet is assumed to be a media highly related to transparency. Internet is an important global reporting media because information on company performances is available for various parties such as creditors, shareholders and analysts besides conventional paper media (Ashbaugh *et al.*, 1999).

Internet has many fortes which other kinds of media do not have such as realtime, low cost, borderless, faster and highly interactive. Because of those strengths, reporting through Internet or Internet Financial Reporting-IFR is expected to improve communications between a company and the stakeholders, especially the investors. With IFR, investors can quickly access financial information of a company to make decisions. Furthermore, investors' movements will be reflected in share movements in stock exchange. If there are more and quicker information available, that will be easier for investors to evaluate their share portfolios. That information will create investors' asks and demands which will end in share exchange transactions.

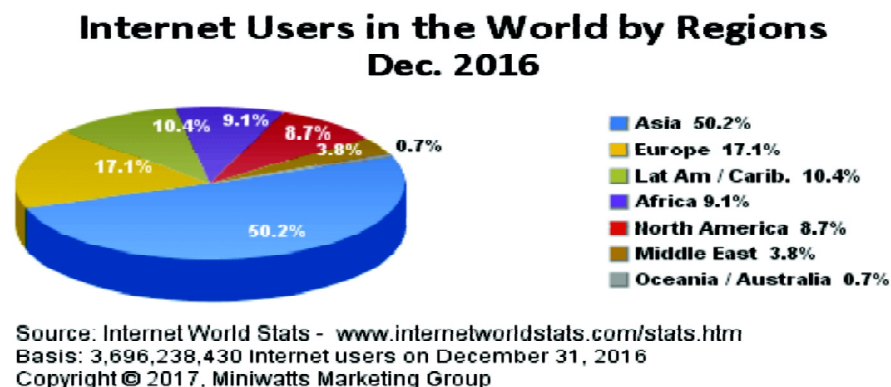


Figure 1. Internet Users in ASIA

Illustration Figure 1 shows that from overall world population that use Internet, ASIA have biggest number of Internet users compared to the other continents which is 50.2% of all Internet users population, then followed by Europe at 17.1%, Lat. America/Carib. at 10.4%, Africa 9.1%, North America 8.7%, Middle East 3.8% and Oceania/Australia at 0.7%. That show that almost the whole population use Internet as a media to perform daily activities, either for searching information, business or communication.

The superiority of Internet upon other media cause the number of Internet user rise dramatically. According to Internet World Stats, the number of Internet users has been rising dramatically in the last decade. Because of Internet technology which has developed very quickly, Internet communications have been adopted in business sectors to be important device to provide information. That development has affected companies' conventional form of information disclosure. Internet is assumed to be an important media to make information on a company's performances available for all investors, creditors, shareholders and analysts globally, besides through other traditional ways (Ashbaugh *et al.*, 1999).

Internet provides unique form to provide information to public promptly which then become companies' media (Ashbaugh *et al.*, 1999). Because of that, an additional media to provide financial information through Internet or websites appear, which is commonly known as Internet Financial Reporting (IFR). Financial information reporting in a company's website is a form of voluntarily disclosure which has been performed by many companies. Indonesian *BAPEPAM* (Capital Market Supervisory Agency) issued The Decree of The Head of *BAPEPAM* No. 86 Year 1996 regarding information disclosure which has to be announced to the public.

Internet Financial Report (IFR) has been being used because it is very wide to report information, it can be in time, efficient and effective. Ashbaugh *et al.*, (1999) state that IFR is an effective communication device which is used to connect a company with its customers, investors and shareholders. IFR is a respond of a company to communicate with stakeholders, especially investors, which in a way better and quicker. According to Jogiyanto (2000), actors of capital market will evaluate every announcement made by issuers, which will cause several share exchange transaction changes such as in share exchange volume and frequency, share price, bid/ask spread, owned share proportion, and so on. That indicates that such announcement contains information which stimulates reactions from actors of capital market. Financial information owned by a company which is available for public will cause movements of share. Information disclosure in a website is a signal from a company to external parties, which may be in a form of reliable financial information and may reduce a company's future prospect uncertainty (Work *et al.*, 2000).

There are several researchers who have studied IFR. One of them is Asbaugh *et al.* in 1999 who states that only the size of a company affects IFR practice and that IFR is an effective device to build communication to customers and stakeholders. Similar with what Asbaugh states, using Austrian public companies as samples, Pichegger and Wagenhofer (1999) in Lai *et al.*, (2009) studied the quality of IFR and conclude that quality is related positively with the size of a company which is represented with the form of owned shares or the value of company's capital. Almilia and Budisusetyo (2008) conducted a research that compares IFR practices between bank industries and LQ45 corporations. The results show that almost all studied banks and companies own a website and make their financial reports on-line. Nevertheless, each company had its own reason to publish their information on-line. Some websites contained only company's products and advertisements. Most of their financial reports were in the form of *.pdf* file and in the same format with their printed financial statements. Meanwhile, the banks' websites had higher score than the

companies in the aspect of technology and user support. Another research was done by Trijayanti (2009) who observed the relationship between IFR and financial ratio on state and private banks. The results of the research shows that state banks have higher level of financial reporting through website than private banks. The reason is that state banks have more stable cost level than private banks.

## **2. LITERATURE REVIEW**

### **2.1. Efficient Market Theory**

The first efficient market concept was suggested and popularized by Fama (1970). In this context, the market refers to capital market and money market. An efficient market is a market where there is no one, no investor either individual or institutional who obtains abnormal return, after adjusting risks using existing trading strategies. That means, price, volume and frequency of shares formed in a market reflect existing information (Gumantri and Utami, 2002). Fahmi (2012:261) explains general requirements to create an efficient capital market, which are disclosure, balanced market, and free market condition. Practices of IFR in distributing financial reports widely are efforts to reduce agency cost (Irwandi 2012). Fama (1970) divides efficiency model of capital market into three forms according to information used in making decisions, which are Weak Form, Semi-Strong Form, Strong Form.

### **2.2. Efficient Market**

An efficient market is a market which shares reflect the relevant information. An efficient market is a market where there is no one, no investor either individual or institutional who obtains abnormal return, after adjusting risks using existing trading strategies (Lutfi., *et al.*, 2016). In other words, prices in a market are reflections of existing information or that stock price reflect all available information (Fama, 1969).

### **2.3. Signal Theory**

Signal theory explains why a company is motivated to provide financial report information for external parties. A motivation of a company providing such information is to reduce information asymmetry between a company and external parties because only the company itself knows about its own condition and future prospects, not external parties (investors, creditors). When there is not enough information that external parties need, those external parties will feel less secured and will be in more defensive state which then may cause the share price of the company goes lower. A company can rise their value by reducing information asymmetry. A way to reduce information asymmetry is by providing signals for external parties, which are in the form of reliable financial information that can reduce uncertainty of future company's prospects (Wolk *et al.*, 2000 in Sari and Zuhrotun, 2006).

### **2.4. Financial Statement**

The purpose of financial statement according to *PSAK* No. 1 Financial Accountancy Standard (2000) is: "To give information regarding the position of finance, performance and company's cash flow which benefit most of the statement users to make economic decision and to be a responsibility for the management after using sources trusted to them." There are two financial reporting types. The first one is voluntary disclosure. The practice of financial information disclosure on company's own website (Internet Financial

Reporting - IFR) is an example of voluntary disclosure. The second type is mandatory disclosure, which financial reports have to follow *Prinsip Akuntansi Berterima Umum/PABU* (Generally Accepted Accounting Principles) which Indonesian Institute of Accountants and *BAPEPAM* (Capital Market Supervisory Agency) regulations regulate.

## **2.5. Private Sector and Public Sector Financial Reports**

The public sector is a complex and heterogeneous organization that leads to information needs for more varied management planning and control. No exception for public sector stakeholders, they need more varied, reliable and relevant information for decision making (Nurzaimah *et al.*, 2016). The duties and responsibilities of public sector accountants are to provide information both to meet the internal and external needs of the organization. Accounting and financial statements contain understanding as a process of collecting, processing, and communicating information useful for decision making and to assess the performance of the organization (Dalimunthe *et al.*, 2016 and Lubis *et al.*, 2016). Because information needs in the public sector are more varied, information is not limited to financial information resulting from an organization's accounting system. Non-monetary information such as the size of service output should also be considered in decision-making. Corporate accounting is used by profit-oriented entities.

Accounting information generated by the accounting system is used by commercial entities to find out various financial performance indicators (the ability of firms to generate profits) as well as financial position for a given period. Corporate accounting is divided into two namely financial accounting and management accounting (management accounting). There are several comparisons between corporate accounting and public sector accounting. Judging from its orientation, corporate entities are profit-oriented while public sector organizations are oriented towards public services (Muda and Dharsuky, 2015 and Yahya *et al.*, 2017). Public sector organizations as well as commercial enterprises also generally perform economic transactions to achieve its objectives. However, unlike the business sector, profits are not the main purpose of public sector organizations.

The government also has a business entity (BUMN and BUMD) which aims to find profits to increase state revenues and to commercialize strategic goods needs of the general public. Source of Funding In the public sector the source of funding comes from taxes, user charges, profits of state-owned enterprises/ BUMDs, foreign loans, bonds, and other legal sources, donations, endowments, loans, grants and non-government (Muda *et al.*, 2017). The commercial sector of financing sources is more flexible, internally derived from owner's capital and retained earnings, while from external are bank debt, bonds, and issuance of new shares. Accountability The public sector, controlling public funds, is accountable to the public through representation in the government organization, and directly to the non-governmental entity. Vertical accountability is accountability to his superiors in the organizational structure, while horizontal accountability is accountability to the general public, through the existing mechanism of parliament (Lubis *et al.*, 2016). The commercial sector controls the owner's funds, is responsible to the owners of shareholders, and creditors.

## **2.6. Internet Financial Reporting (IFR)**

Internet Financial Reporting is a company's financial information disclosure distributed through Internet or the company's own website (Lai *et al.*, 2009). Therefore, it is good for a company to use Internet as a

strategy to improve company performance. Related to the use of Internet in Indonesia, there are provisions and regulation in effect which are:

- (a) The Decree of the Head of *BAPEPAM-LK* No. 86 Date 24<sup>th</sup> January Year 1996 regarding information disclosure which has to be announced to the public.
- (b) Article 1 number 2 Laws No. 8 Year 1997 Regarding Documents
- (c) General Development Strategy of Capital Market Blueprint 2000-2004.
- (d) Regulation No. I-E which is attached in The Decree of The Directors of PT Bursa Efek Jakarta (Jakarta Stock Exchange Co.Ltd) No. Kep-306/BEJ/07-2004 date July 19, 2004 regarding The Obligation to Disclose Information.

### 3. RESEARCH METHOD

The population of this research is all companies registered on Jakarta Islamic Index from 2014 until the end of 2015, which consists of 30 companies. Jakarta Islamic Index (JII) is the stock market index or stock average price index that was started on July 3, 2000 to facilitate the trading of public companies that run according to sharia principles. The principles of sharia include prohibiting companies whose shares are listed for conducting business activities on the basis of gambling, speculation, conventional banking system, producing or trading illegal food/drink, providing goods/services that damage the morals and health. Data used in this research are secondary data, which are the financial information in the companies' own websites regarding share prices and frequencies acquired from IDX. The source of this research's data was from <http://www.idx.co.id>. Secondary research can be an alternative to get answers that are not obtained from primary research. From the secondary data the researcher also benefited by making the comparative tool with existing data to look for differences with the new findings (Tarmizi, *et al.*, 2017). The use of secondary data in research can be an option. In addition to easy access to save time and cost, this type of data is also sufficient for research by students. However, what needs to be taken into account is that secondary data tend to be biased so it is not accurate or not in accordance with the research to be conducted.

### 4. RESULTS AND ANALYSIS

#### 4.1. Result

##### 1. Descriptive Statistic

Descriptive Statistic analysis portrays the characteristics of sample data used in this research. The following is descriptive analysis on the variables:

Table 1  
Descriptive Statistic

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
Share Price	30	7401000.00	81.80E8	4.2035E8	7.21774E7
Share Frequency	30	7.00	8219.00	779.3050	751.50427
IFR	30	.00	1.00	.9000	.37690

Source: Research Results, 2017.

Based on the descriptive statistic Table, the minimum value of IFR variable is 0 or, in other words, until the end of 2015 there were companies which had not applied IFR on their website. Meanwhile, the maximum value of IFR is 1, which means at the end of 2153 there will be companies which will apply IFR on their website. The mean value of IFR variable from the total of 30 studied companies is 0.9000. The value of Standard Deviation of IFR variable is 0.37690, which shows that is smaller than the mean value. The numbers show that the data of IFR variable is homogeneous.

## 2. Simple Linear Regression Analysis

**Table 2**  
**The Results of Simple Linear Regression Analysis of Model 1**

<i>Variable</i>	<i>Regression Coefficient</i>	<i>T count</i>	<i>Sig</i>
Constant	8.659	3.115	0.001
IFR	11.785	4.152	0.000
R2	= 0.790		
Adjusted R2	= 0.682		

*Source:* Research Results, 2017.

According to Table 2 on first model test on the influence of Internet Financial Reporting (IFR) toward share frequency, the significance value was 0.000. Since the significance value is smaller than alpha ( $0.000 < 0.05$ ), thus the hypothesis is accepted (Sirojuzilam *et al.*, 2016 and Tarmizi *et al.*, 2016). That means that there is influence from Internet Financial Reporting (IFR) on company's share frequency. Based on Efficient Market Theory that investor will react quickly and fully toward new information that appear in market, which causes the shares to be adjusted. That goes with what Beaver (1968) in Lai *et al.*, (2010), Ball and Brawn (1968) and Fama *et al.* (1969) state that shares will move when useful information enters the market. Every information disclosure will make investor review their assessment on share value and make decision to either sell or keep the shares. Further more, information disclosed quickly through IFR will be available for all investors thus will lessen information asymmetry and shorten information accessibility delay. Therefore, companies which have applied IFR will have higher trading frequency than those which have not applied. That is because useful information for investors is published quickly.

**Table 3**  
**The Results of Simple Linear Regression Analysis of Model 2**

<i>Variable</i>	<i>Regression Coefficient</i>	<i>T count</i>	<i>Sig</i>
Constant	3.659	3.125	0.004
IFR	2.785	3.332	0.001
R2	= 0.610		
Adjusted R2	= 0.592		

*Source:* Research Results, 2017.

### 3. The Influence of Internet Financial Reporting on Share Price

According to Table 3 on first model test on the influence of Internet Financial Reporting (IFR) toward share price, the significance value was 0.001. Since the significance value is smaller than alpha ( $0.000 < 0.05$ ), thus the hypothesis is accepted. A voluntary disclosure conducted by a company through IFR will score additional value because of the information for investors and will rise the share price. When information of a company is distributed quickly through IFR, then investors will acquire the information quickly, and thus will lessen information asymmetry and shorten information accessibility delay as well. When investors acquire the information quickly, they will react quickly toward new information that appears in market, which then that will make investor make decision to buy, sell or keep the shares. When a group of investors make a certain moves toward shares together, this will affect share price in market. Therefore, companies which have applied IFR will have higher trading price than those which have not applied. That is because useful information for investors is published quicker (Lai *et al.*, 2002).

## 5. CONCLUSION

Internet Financial Reporting influence significantly on a company's share trading frequency and price. IFR appliance in a company is important and should be attended and improved, especially if that is connected with IFR appliance components. Moreover, that is so because there are many researchers on IFR studies whose interest is on what influences investors' decisions.

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