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Digital Financial Reporting Practices among Public Listed Mining Companies in Indonesia

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The Internet is one technology that plays an important role currently. Most companies that have gone public have an existing company website containing important information about the company. The availability of the internet can facilitate a company's presentation of latest information. The Internet can also be used by corporate information users to detremine a company's current financial condition. The use of the Internet to deliver corporate financial statements is called Internet Financial Reporting (IFR). Internet financial reporting (IFR) is a recent but fast-growing phenomenon. Many companies worldwide publish their corporate financial information on the Internet. Companies can store financial information via the Internet to reach a wider worldwide audience more quickly and economically. The study objective is to examine the relationship between firm size, leverage, liquidity, profitability and Internet Financial Reporting (IFR) in Indonesian mining companies. This study is categorized as descriptive research and uses multiple regression models for data analysis. The study findings are that (1) the combined firm size, leverage, liquidity and profitability have no significant effect on the disclosure of IFR, (2) firm size has non-significant positive effect, on the disclosure of IFR, (3) leverage has non-significant positive effect on the disclosure of IFR, (4) liquidity has non-significant positive effect on the disclosure of IF and (5) profitability has a significant positive effect on the disclosure of IFR. This study adds to existing available information for policymakers, company management, governments, the Financial Services Authority and the Indonesia Stock Exchange, that enables informed decision making about IFR as a transparent medium for corporate governance.

Key words: *Governance, Disclosure, Internet Financial Reporting, Transparency.*

Introduction

The economic growth of a country can be shown by its increasing technological progress. The Internet is one technology that plays an important role currently. The Internet is regarded as a communication medium that is more effective, efficient, flexible and comprehensive and that has the ability to fulfil stakeholder needs (Sinkey, 1992; Ghozali, 2011; Rozak, 2012; Akbar and Daljono, 2014; Mayasari et al, 2014; Ekhlas and Sakiru, 2017).

Several years ago, much of a company's information was only available through traditional media (annual report entitled) or through intermediaries (media press). Such communication methods do not rule out the possibility that the information will not really reach the intended audience and the production cost is still debatable [*Cormier et al*, 2009]. *Cormier et al* (2009) reveal that using the Web produces a better web-based solution than traditional ways of presenting and reporting content. In addition, the Web allows a firm to disclose far more information than traditional means. Such a context implies that the stewardship relation between a firm's management and its stockholders becomes more direct, dynamic and, potentially, interactive. Hence, we expect firms to take advantage of this opportunity and to structure their disclosure of information about various aspects of their activities in a way that is conditioned by how it will ultimately benefit stockholders.

New communication and channel tools have been developed, which are complementary or substitute the way communication has been achieved in the past. One of the fastest growing communication channels today is the internet [*Spaul*, 1997]. The use of the Internet enables information to be disseminated throughout the world and thus facilitates the increased availability of financial information in particular [*Aly et al*, 2010]. [*Cormier et al*, 2009] Corporate disclosure is essential in ensuring mutually beneficial relations between a firm and its various stakeholders, a situation which ultimately benefits stockholders. Corporate scandals such as Enron, Worldcom, Adelphia, Ahold and HealthSouth illustrate that when a firm's disclosure loses credibility, value losses extend far beyond stockholders to encompass other stakeholders. Moreover, incomplete or non-transparent disclosure impedes corrective actions by a firm's various stakeholders and may actually accelerate value destruction. Enhanced performance disclosure is also a key objective of the Sarbanes–Oxley Act of 2002. The Act contains many clauses to ensure that a firm's performance disclosure is credible, transparent and ethical (see Section IV of the Act). Securities market regulators in both

Canada and the United States also mandating that firms raise the extent of their performance disclosure, either financial or non-financial, to regain public trust.

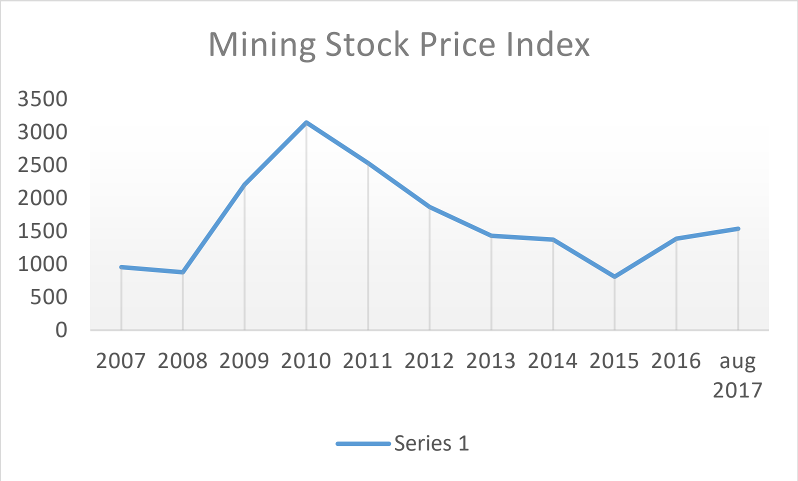
Most companies that have gone public have an existing company website containing important information about the company. The availability of the internet can facilitate the company in presenting the company's latest information. The Internet can also be used by corporate information users to find out the company's current financial condition. The use of the Internet to deliver corporate financial statements is called Internet Financial Reporting (IFR). IFR has various advantages as a medium to convey company information as it is viewed as an effective tool to communicate with customers, investors, shareholders and other stakeholders [*Gusti et al*, 2017], [*Suripto*, 2006], [*Wardhanie*, 2012], [*Debreceny et al*, 2002].

This study examines the effect of corporate governance on IFR among mining listed companies. The findings in this study provide further understanding about the information available to policymakers, such as company management, governments, the Financial Services Authority and the Indonesia Stock Exchange, enabling informed decision making about IFR as a transparent medium for corporate governance. The next sections are as follows. Section 2 presents the literature review. This is followed by Section 3 which provides the research methodology. Then, Section 4 presents the results of this study. The last section, Section 5 summarises and concludes this study.

Introduction

Internet Financial Reporting (IFR) becomes an important trend in line with the development of internet technology (Razak, 2012). Internet financial reporting (IFR) is a recent but fast-growing phenomenon. Many companies worldwide publish their corporate financial information on the Internet. Financial information provided on the web includes comprehensive sets of financial statements, including footnotes; partial sets of financial statements; and/or financial highlights that may include summary financial statements or extracts from such statements [*Singhvi and Desai*, 1971]. Companies can store financial information via the Internet to reach a wider worldwide audience more quickly and economically.The need for control over IFR largely depends on the degree to which efficient solutions are currently being found in the market for financial information of this nature. Companies elect to develop and maintain corporate websites and choose to provide financial information on such websites. Substantial accounting literature has emerged in the last 30 years that explains and predicts corporate financial disclosure behaviour. This literature focuses primarily on voluntary reporting through the traditional medium of print-based annual reports. The recent development of the Internet as a medium for the dissemination of corporate financial information creates a corporate reporting environment that may be different from the traditional print-based one [*Cormier et al*, 2009].

Figure 1. Mining Stock Price Index



Source: Financial Service Authority, 2017

Using Figure 1 above, the *Financial Service Authority*, (2017) explain that the Mining Stock Price Index has decreased since 2010. This is because the Indonesian mining industry has decreased due to the sluggishness of the oil and gas sector. There if further support (*Cormier et al*, 2009 and *Asbaugh and Warfield*, 1999) that the decline in mining operations is influenced by many macro factors occurring globally. A solution is needed to increase the number of investors investing in company equity; this study investigate whether the solution could be IFR.

As explained earlier, financial reporting on the internet is intended as a medium of communication especially for investors who need to consider information from financial statements (Hussain et al., 2018). The use of the internet as a reporting medium will facilitate investors assessment of the performance of the company by looking at the web owned company and the financial statements presented in the company website [*Akbar and Daljono*, 2014]. Disclosure of information on the company's website is also an effort of the company to reduce information asymmetry or information discrepancy between the company and outsiders. Information asymmetry can occur because the management knows more about the company than with outsiders such as investors and creditors [*Akbar and Daljono*, 2014].

As indicated by signalling theory, the disclosure of company information reduces information asymmetry between the investor and the company [*Hargyantoro*, 2010]. It has been revealed

[*Rozak*, 2012] that 56 percent of Egyptian companies report that most of the financial information is available on the company's website. On the other hand, other studies [*Ettredge et al*, 2022] reveal that many companies have failed to optimize the disclosure of corporate information through the Internet, either for financial information or corporate sustainability. *Luciana* (2009) conducted research on financial content quality analysis and sustainability reporting on the Indonesian company website 'go public' which hosts as many as 115 companies from various industries. The results of this study indicate that many companies have not optimally utilized the disclosure of company information through the website, both for financial information and corporate sustainability. Other findings in this study are that while many companies do not provide information to investors, most of the information presented on those company's that do publish to a website is about the product or service produced and many companies do not update the information presented. *Singhvi and Desai* (1971), further demonstrate that there is no difference between the disclosure of IFR between hi-tech companies and low-tech companies in Indonesia. This indicates that companies listed on the Indonesia Stock Exchange should be paying attention to the development of Internet-based financial reports [*Dustinova and Soepriyanto*, 2012]. However, until now, there have been no regulations on Internet-based financial reports in Indonesia.

Further research [*Rozak*, 2012; *Aly and Hussainey*, 2010; *Luciana*, 2009 and[*Rahmadiani*, 2012] examines the factors that influence the disclosure of financial statements on a company's website. As a result, firm size, leverage, liquidity and profitability have emerged as factors affecting the implementation of IFR.

Research Methodology

This study is categorized as causality descriptive verification research. Descriptive research or a descriptive study is conducted to determine and explain the characteristics of variables studied in a situation [*Sekaran*, 2014]. This descriptive study is conducted to get the most accurate picture of a particular individual, circumstance, symptom, or group, so that it can eventually help in the formation of a new theory or reinforce existing theory [*Wiyono*, 2011]. Furthermore, this research is included in the type of verification research that aims to test the hypothesis through validation theory or testing the application of theory. This study is also causal (causal study), because this study intends to analyze the characteristics of the problem of causality between two variables or more, and is conducted with the aim to declare that the independent / independent variable cause the dependent variable / bound [*Sekaran*, 2014].

This research on internet financial reporting (IFR) is conducted using a scientific method (quantitative) that emphasizes the testing or verification of the theory deductively to determine the foundation in solving research problems. The theory in this instance is the basic framework underlying problem formulation, hypothesis development, data testing and conclusion. The strategic position of theory in quantitative research is reflected in the results of research in the form of support or rejection of the theory concerned. The data analysis method used in this research is a multiple regression model (Multiple Regression).

The analysis model used in this research is a multiple linear regression analysis model and the equation of multiple linear regression analysis used is:

$$IFR = \alpha + \beta 1.FS + \beta 2.LEV + \beta 3.LIQ + \beta 4.PROF + e \quad (1)$$

Results

Descriptive Statistics

Table 1 below presents the descriptive statistical test results on the corporate governance variables on IFR among the mining listed companies. The first variable is firm size. Firm size was measured using the market capitalization log. The companies that had the lowest joint firm size value were Berau Coal Energy Tbk with the price of Rp 63 total shares outstanding as much as 34.9 billion pieces and Surya Esa Perkasa Tbk, with a share price of Rp 1620 outstanding shares of 1,100,000,000 shares with a value of 21.00. The maximum firm size value was 32.0 for both Adaro Energy Tbk with a share price of Rp 1695 outstanding shares of 31,985,962,000 and Medco Energy International Tbk with a stock price of Rp 1320 with the number of shares 3,332,451,450. The average firm size value was 28.27, and the standard deviation for the firm size was 2.39.

The second variable is leverage which was measured by comparing long-term debt with equity. The company with the lowest leverage value of -2.62 was Merdeka Copper Gold Tbk. Merdeka Copper Gold Tbk has a negative leverage value because in 2016 it showed a deficit of
$ 14,367,771, an increase from 2015 which was only $ 11,611,408. The company that has the highest leverage value is Bayan Resource Tbk with the value of 0.46 because Bayan Resource Tbk experienced an increase in equity value from 2015 which amounted to $ 172,160,015 and
$ 188,150,974 in 2016, while liabilities decreased in 2016 to $ 636,535,687 and in 2015 for
$ 765,691,713.

Table 1: Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
FS	36	21.00	32.00	28.27	2.40
Log_LEV	36	-2.62	0.46	-0.69	0.82
LIQ	36	0.02	4.05	1.36	1.05
PROF	36	-0.18	0.32	0.03	0.09
IFR	36	0.14	0.77	0.51	0.15
Valid N (listwise)	36				

The third variable is liquidity. Liquidity was measured using current ratio. The company with the lowest liquidity was Petrosea Tbk with a value of 0.0216. This occured because the percentage increase in current assets is lower than the decrease in the percentage of current liabilities, whereas the increase in current assets is only 4%, while the decrease in current liabilities is 24.7%. The highest liquidity value was held by Resource Alam Indonesia Tbk, with a value of 4.05. This is followed by a lower percentage of current asset increase compared with an increase in the percentage of current liabilities where the increase in current assets is only 2.3%, while the decrease in current liabilities is 43.9%. The average liquidity value was 1.36, and the standard deviation value for liquidity was 1.06.

Profitability was measured using Return on Assets (ROA). The company with the lowest ROA with a value of -0.18 was Bara Jaya International Tbk. This occured because in 2016 Bara Jaya International Tbk suffered a loss of (Rp 120,781,233,000) with a decrease in sales in 2016 amounting to Rp 10,202,426,000 and in 2015 amounted to Rp. 246,706,960,000, while the highest with a value of 0.31 was Mitrabara Adiperdana Tbk because of increased sales. The average profitability value was 0.02, while the standard deviation value for profitability was 0.08.

Finally, the dependent variable which is IFR was measured using the values obtained from the IFR disclosure level analysis and the lowest value was recorded by Perdana Karya Perkasa Tbk based on the results of IFR index measurement because it only met several criteria. The highest value was achieved by Medco Energi Internasional Tbk with an average index value of 51%, because Medco Energi Internasional Tbk is the company that best met the criteria of assessment in the determination of IFR index. The standard deviation for IFR is 0.14.

Statistical Test Analyses

Based on Table 2 below, firm size, liquidity, profitability and IFR variables are normally distributed; leverage variables are not normally distributed, with significance levels below 0.05.

Table 2: Normality Test

One-Sample Kolmogorov-Smirnov Test

		FS	LEV	LIQ	PROF	IFR
N		36	36	36	36	36
Normal Parameters[a,b]	Mean	28.27	0.60	1.36	0.03	0.51
	Std. Deviation	2.40	0.75	1.05	0.09	0.15
Most Extreme Differences	Absolute	0.18	0.27	0.10	0.18	0.15
	Positive	0.10	0.27	0.10	0.14	0.11
	Negative	-0.18	-0.22	-0.10	-0.18	-0.15
Kolmogorov-Smirnov Z		1.06	1.61	0.61	1.07	0.88
Asymp. Sig. (2-tailed)		0.21	0.01	0.86	0.20	0.41

Further, this study performed the transformation of data to make it normal data [*Spaul*, 1997] as shown in Table 3 below.

Table 3: Normality after Data Transformation

One-Sample Kolmogorov-Smirnov Test

		FS	Log_LEV	LIQ	PROF	IFR
N		36	36	36	36	36
Normal Parameters[a,b]	Mean	28.27	-0.70	1.36	0.02	0.51
	Std. Deviation	2.40	0.82	1.05	0.09	0.15
Most Extreme Differences	Absolute	0.18	0.16	0.10	0.18	0.15
	Positive	0.10	0.08	0.10	0.14	0.11
	Negative	-0.18	-0.16	-0.10	-0.18	-0.15

Kolmogorov-Smirnov Z	1.06	0.94	0.61	1.07	0.89
Asymp. Sig. (2-tailed)	0.21	0.33	0.86	0.20	0.41

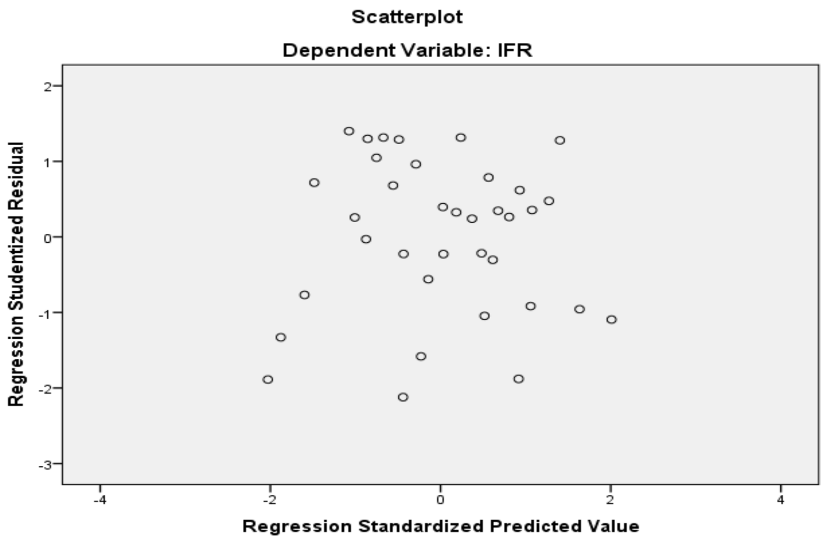
Table 4 below shows that there is no correlation between independent variables less than 0.10 and that there is no VIF (variance inflation factor) value exceeding 10. Thus, it can be concluded that the regression model is freed from multi-collinearity.

Table 4: Multicollinearity Test

Variable	Collinearity Statistics		Information
	Tolerance	VIF	
Firm size	0.976	1.024	There is no multicolinearity
Leverage	0.964	1.037	There is no multicolinearity
Liquidity	0.988	1.012	There is no multicolinearity
Profitability	0.956	1.046	There is no multicolinearity

Figure 2 below demonstrates the plotted data scattered both above and below 0 on the Y axis. It can be deduced that there is no heteroscedasticity in the multiple linear regression model, so the regression model is worthy of predicting the IFR based on the independent variables of firm size, leverage, liquidity and profitability.

Figure 2. Scatterplot



Hypothesis Testing

The significance value of 0.199 is greater than the 0.05 significance level, indicating that the combined effect of firm size, leverage, liquidity and profitability to IFR is not significant; $H0_1$ is accepted and Ha_1 is rejected. Liquidity and profitability to IFR are not significant (Table 6).

Table 6: F-Test

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.132	4	0.033	1.602	0.199[b]
	Residual	0.639	31	0.021		
	Total	0.771	35			

Firm Size to IFR

Table 7 and Table 8 below demonstrate the relationship between firm size and IFR. The results add to existing evidence that show that firm size has no significant effect on the IFR [*Oyelere*, 2003; *Abdelsalam*, 2008; *Rahmadiani*, 2012; *Djulius*, 2017]. *Ashbaugh* (1999) examind the IFR practices of US companies and found that firms operating websites are larger than firms without websites. It was further determined (*Gusti et al*, 2017; Fengyang, 2018) that firm size has a positive influence on disclosure in IFR. The underlying reason for this is that large companies often experience agency conflict because they have large and widely distributed shareholders (Sia, Brahmana, & Memarista, 2018). Agency conflict can be minimized by the existence of financial reporting addressed to the shareholders acting as management accountability. For that reason, large companies tend to disclose IFR with the aim of reducing agency costs associated with printing and delivering financial statements [*Rahmadiani*, 2012].

In addition, the greater the market capitalization, the more public awareness the company will have [*Hilmi and Syaiful*, 2008]. Many theories or models in accounting literature such as agency/contracting, signalling and costs/benefits attempt to explain disclosure choice by identifying the motivations for voluntary reporting practices (Ahmed, Majid & Zin, 2016; Ali & Haseeb, 2019; Asbaugh and Warfield ,1999; Haseeb, Abidin, Hye, & Hartani, 2018; Haseeb., 2019; Suryanto, Haseeb, & Hartani, 2018). The voluntary and growing use of the Internet as a medium for the dissemination of financial information provides an opportunity for an in-depth examination of the incentives that motivate such unregulated dissemination of corporate information. An understanding of voluntary reporting behaviour would be gained by assessing whether the determinants associated with traditional dissemination of financial information through print-based annual reports explain IFR practices.

Table 7: Test Results t Firm Size

Model Summary[b]

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	0.215[a]	0.046	0.018	0.1471008

Singhvi and Desai, (1971) described three reasons for an association between disclosure and size. Firstly, larger firms generally have a more diverse product range and more complex distribution networks than smaller firms. As a result, larger and more complex management information systems and databases are required for management control purposes. Consequently, disclosure costs may be generally lower for larger firms (Prochazka, 2017). Secondly, larger firms make more extensive use of capital markets for external financing than smaller firms. Such firms can increase the marketability of their securities in capital markets, and obtain capital more easily and cheaply through more extensive disclosure. Lastly, smaller firms may be more likely than larger firms to consider that full disclosure of information could endanger their competitive position.

Table 8: Coefficients[a]

Coefficients[a]

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	0.139	0.294		0.47	0.64
	FS	0.013	0.010	0.215	1.28	0.21

a. Dependent Variable: IFR

Table 9 below demonstrates that the leverage variable has no significant effect on the disclosure of IFR, meaning that the higher the leverage, the higher the disclosure of IFR on the company; however, this not statistically significant. The results of this study are in accordance with Lidiyawati (2014), who states that higher leverage levels make the management of the company more difficult. If the company has a high leverage ratio, then the company has high levels of risk. High debt levels are believed to dampen investor interest. A high leverage ratio means creditors finance most of the company's finances. This will result in larger interest payments on company loans; which affects the profit and loss of the company, and ultimately affects the company dividends. This, of course, threatens the position of corporate managers as it reflects badly on their ability to successfully run the company. Furthermore, the style of investment in Indonesia compared to abroad is differ [*Lidiyawati*, 2014] differ.

In general, investors in Indonesia speculate using just the financial performance of a company; while foreign investors use more sophisticated methods; not only in assessment of financial performance but also analysing information provided by the company as a whole. On that basis, companies tend not to disclose high levels of debt by not increasing their levels of IFR [*Lidiyawati*, 2014]. Agency theory has largely been used to explain the relationship between *firm leverage* and corporate disclosure [*Oyelere et al*, 2003]. Debreceny et al (2002) observed that increases in the debt-equity ratio create agency costs. Management could voluntarily disclose on the internet to allow creditors to constantly monitor company affairs and help assess the company ability to service its obligations on time. In addition, management could voluntarily disclose for monitoring purposes and help assure debt holders about the ability of the company to pay its obligations.

Table 9: Test Results t Leverage

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.133[a]	0.018	-0.011	0.1492832

Table 10: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	0.53	0.03		16.20	0.00
	Log_LEV	0.02	0.03	0.13	0.78	0.44

a. Dependent Variable: IFR

Table 11 and Table 12 below demonstrate that the liquidity variable has no significant effect on the disclosure of IFR. The results of this study are similar to Rozak (2012) and Wardhanie (2012) who found that liquidity has no influence on the disclosure of IFR. The Indonesia Stock Exchange has no regulations on IFR, and so companies have no obligation to disclose financial information on their website; this information is therefore largely inaccessible

[*Wardhanie*, 2012]. Abdelsalam (2008) argued that companies, according to signalling theory, will disclose more information if their liquidity ratio is high, to distinguish themselves from other companies with less favourable liquidity. Agency theory suggests that companies with a low-liquidity ratio may provide more information to satisfy the information requirements of shareholders and creditors. Healthy financial companies will disseminate their financial statements and other financial information through internet media (IFR) to attract the attention of investors [*Rahmadiani*, 2012; Bhattarai & Carter 2018]. Firms that are financially strong are more likely to report financial information then weak firms (Yasser, Al Mamun, & Rodrigs, 2017). In addition, with complete financial reporting and easy public access the company does not feel threatened its performance but rather show success of the company's operations.

Table 11: Test Results t Liquidity

Model Summary[b]

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	0.080[a]	0.006	-0.023	0.1501395

a. Predictors: (Constant), LIQ

b. Dependent Variable: IFR

Table 12: Coefficients[a]

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	0.500	0.041		12.09	0.00
	LIQ	0.011	0.024	0.080	0.47	0.64

As per Table 13 and Table 14 below, it can be seen that profitability variables have a significant influence on the disclosure of IFR. The results of this study are similar to Lestari and Chariri (2007) who revealed that companies that have a high level of profitability are more likely to disclose financial statements in a more timely manner, in accordance with signalling theory. In addition, companies with good performance will try to disseminate the company's good reputation; one of the strategies to accomplish this is to use the Internet [*Gusti et al*, 2017]. Signalling theory suggests that profitable companies have an incentive to disclose more information, to signal the firm's profitability to investors to support management continuation of their positions and levels of compensation [*Singhvi and Desai, 1971*].

Table 13: Test Results t Profitability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.318[a]	0.101	0.075	0.1427928

Table 14: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.501	0.25		20.197	0.000
PROF	0.534	0.273	0.318	1.957	0.059

Summary and Conclusion

The objective of this study is to examine the relationship between firm size, leverage, liquidity, profitability and Internet Financial Reporting (IFR) in Indonesian mining companies. The results show that the combined size, leverage, liquidity and profitability of the company have no significant effect on the disclosure on IFR. Specifically Firm size has a non-insignificant positive effect on the disclosure of IFR and leverage has a non-significant positive effect on the disclosure of IFR. 4) while liquidity has a non-significant positive effect on the disclosure of IFR and profitability has a significant positive effect on the disclosure of IFR.

This study further provides information to policymakers, such as company management, governments, financial services and the Indonesia Stock Exchange. The results of this study indicate that the average index of IFR disclosure for Indonesian mining companies is 51 percent; Indonesian mining companies can still improve their IFR disclosure index. All parties must have the initiative to improve their customer reputation through strengthening their corporate governance; this can be accomplished by increasing their financial reporting disclosure and to establish regulation standards for IFR.

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