

# The Influence of Internet on Financial Reporting Practices, Financial Secrecy and Firm Value of ASEAN Companies

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This study aims to examine the factors influencing firm value in countries in the ASEAN region. Specifically, this study examines the effect of internet financial reporting practices and financial secrecy on firm value in five countries namely: Indonesia, Malaysia, Singapore, Thailand and the Philippines. Using content analysis on 185 companies, this study shows that IFR does not influence firm value. On the other hand, this study shows that secrecy influences firm value. This study contributes to the existing literature by providing an empirical result of IFR in the ASEAN region. The findings in this study implicates that since secrecy has a significant negative effect on firm value, hence those countries that have high secrecy index must reduce the level of high secrecy index in order to increase firm value through levelling investor's trust on the financial reporting practices of the firms in the ASEAN region.

**Key words:** *Internet Financial Reporting, Secrecy, Firm Value, Internet, ASEAN.*

## Introduction

In the current era of globalisation, where the development of international trade and business can be marked by the increasing number of investors investing in the global capital market. The growth of the capital market can also be seen from the technology used in the capital market. The internet is one technology that plays an important role at the moment. The internet has advantages over other media so that internet usage continues to increase rapidly. The

internet offers a unique form of disclosure that is a medium for companies to provide information to the broader community as soon as possible (Abdelsalam et al., 2008).

Within the accounting context, the recent emergence and expansion of the Internet Financial Reporting (IFR) technology has had a significant impact on the wider dissemination of financial information and reports (Oyelere, Laswad, & Fisher, 2003; Ghani & Said, 2010; Ghani, Laswad & Oyelere, 2011). The new presentation technology provides an opportunity for preparers of accounting reports to extend their reporting medium beyond the traditional hard-copy print-based format to more sophisticated formats such as Portable Document Format (PDF), Hypertext Markup Language (HTML) and EXtensible Business Reporting Language (XBRL). Various advantages become the company's motives for implementing IFR (Mayasari, Verawaty & Jaya, 2014). Ashbaugh, Johnstone and Warfield (1999) stated that IFR is seen as an effective communication tool to customers, investors and shareholders. IFR is also a response from companies to maintain loyalty, establish communication with stakeholders faster and more effectively.

Studies have suggested various factors that can influence firm value. The Grand theory has posited that information about companies can reduce information asymmetry between investors and companies (Hargyantoro, 2010). Thus, the disclosure of data on the company's web is also an attempt by the company to reduce information asymmetry or information mismatch between the company and outside parties. A study by Aly, Simon and Hussainey (2010) revealed that 56 percent of companies in Egypt reported most of the information on the company's website. Arguably, the IFR can influence the firm value. Another factor is financial secrecy. Houge, Monem, Tareq and van Zijl (2015) and Puspitasari, Sukmadilaga, Suciati, Bahar & Ghani (2019) both suggested that financial secrecy can also influence firm value.

This study aims to examine the effect of IFR and financial secrecy on firm value in five countries namely, Indonesia, Malaysia, Singapore, Thailand and the Philippines and. The remainder of this paper is organised as follows. Section 2 reviews related literature. This is followed by the research method in Section 3. The empirical results and discussions are presented in Section 4. The final section concludes the paper which includes suggestions for future research.

## **Literature Review**

### ***Firm Value***

The firm value is the investor's perception of the company's success rate related to stock prices (Sujoko & Soebiantoro, 2007). According to Sudana (2011), one of the main objectives of the company is to increase the value of the company. Furthermore, Sudana (2011) says that

maximising the value of a company is the same as maximising the present value of cash flows or income streams that are expected and received by investors in the future. Investors will judge a good company by its abundant resources. A company with a high value is a company with an excellent financial position, and vice versa (Dhani & Utama, 2017). The company's value in this research uses stock prices.

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

Extensive literature has emerged in the past decade that has examined internet financial reporting (Ghani & Jusoff, 2009; Ghani, Laswad & Tooley, 2011). Asbaugh et al. (1999) stated that IFR is seen as an effective means of communication to both customers and investors. IFR is referred to as voluntary disclosure, not seen from its content, but from the media or tools used (Barac, 2004). IFR is the inclusion of company financial information via the internet or website (Lai et al., 2010). Advantages of the application of IFR according to Almlia (2009) includes, firstly, the use of the internet as a medium for delivering financial statements as a saving for companies because they no longer need to print financial reports on paper. The process of distributing financial statements to interested parties is also more efficient and real-time because those who want to see the company's financial statements can directly obtain them via the internet. Secondly, ease of accessing the latest information, which every investor can access financial statement information quickly and easily wherever and whenever they want. Thirdly, it provides a two-way communication medium between company management and website visitors. IFR is a modern technology that was introduced in the area of financial reporting (Moradi, Salehi & Arianpoor, 2011).

Studies in the IFR literature have examined the IFR in various countries. These studies often examined company disclosures via the web for more specific reports, namely financial statements have been widely reported, not only in Indonesia but also in ASEAN countries such as Malaysia, Thailand, Singapore, and the Philippines. Akbar and Daljono (2014) revealed that disclosure of information on the company's web is an effort by the company to reduce information asymmetry or information mismatch between the company and outsiders. Web media is a great benefit for companies to disclose as much information as possible so that investors can judge which companies are good and which are bad. Cheng, Lawrence and Coy (2000) stated that 32 (80%) of 40 companies in Thailand already have websites, and 70% have submitted their financial reports on websites. Furthermore, studies related to comparison of IFR have also compared the quality of internet reporting between companies listed on the Singapore stock exchange and companies listed on the Malaysian stock exchange (Iqbal, 2005; Handayani & Almlia, 2013). The results of the research found that companies listed on the Singapore Stock Exchange have a more complete website than companies listed on the Malaysia Stock Exchange. A study conducted by Debreceeny et al. (2002), Surtipto (2006) and Chariri and Lestari (2007) examined the factors that influence the inclusion of financial

statements on the company's web. As a result, company size appears as a more common factor regarding the implementation of IFR.

Maryati (2014) stated that IFR uses the internet media to present financial and non-financial company information. Information disclosed in IFR must reflect complete, comprehensive conditions and show the actual conditions of the company so that that information can be useful for investors (Maryati, 2014). Since most studies have suggested that IFR can influence firm value, this study proposes following hypothesis:

**H1:** IFR can significantly influence firm value of the companies in the ASEAN region.

### ***Financial Secrecy***

Secrecy is one of the accounting values that can influence the way information is presented particularly on the disclosure of information (Puspitasari et al, 2019). Besides having a negative effect on earnings quality, secrecy also has a negative effect on the comparability of financial statement. Gray (1988) states that secrecy is an accounting value that chooses to safeguard information and does not provide disclosures about business activity. Secrecy tends to prevent exposure to external parties. The same thing also expressed by Radebaugh and Roberts (1990), secrecy is an activity that is consistent with strong uncertainty avoidance that prevents disclosure to external parties thereby reducing competence and conflict that can reduce company security.

The Tax Justice Network (2015) issued a Financial Secrecy Index (FSI), which contains secrecy index for 92 countries, where if the secrecy score is above 50 then it is said to be high, whereas if it is equal to 50 or below then it is categorised as low. Geiger and Smith (2010) revealed that countries that have high secrecy values tend to try and hide or not fully disclose relevant financial information. In conducting research related to this secrecy index, the Tax Justice Network uses several methodologies used in calculating the secrecy index, namely:

1. Banking secrecy;
2. Recorded Company Ownership;
3. Public Company Accounts;
4. Country by Country Reporting;
5. The efficiency of Tax Administration;
6. Anti-Money Laundering;
7. Automatic Information Exchange;
8. International Transparency Commitments.

Since most studies have suggested that financial secrecy can influence firm value, this study proposes following hypothesis:

**H2:** Secrecy can significantly influence firm value of the companies in the ASEAN region.

## **Research Methodology**

### ***Sample Selection***

This study relies on the companies located in five countries in the ASEAN region, namely Indonesia, Malaysia, Singapore, Thailand and the Philippines. The five countries are chosen because based on the results of ASEAN publications above, the five countries have the highest total foreign direct investment in ASEAN and have implemented IFRS and XBRL in their respective countries. In total, there are 185 companies in the ASEAN region.

### ***Data Collection***

The data collection was done using content analysis through reviewing the existence of IFR practices among the companies in the ASEAN region. Those companies' measurement for the IFR variable using Index Internet Financial Reporting. This study also searched for the companies' characteristics particularly on the level of their financial secrecy. This is done by Financial Secrecy Index. These two variables, IFR and secrecy serves as the independent variables in this study.

The firm value is determined by the stock price. This variable serves as the dependent variable in this study.

### ***The Model***

This study develops a model to meet the objectives of this study. Specifically, the equation of the multiple linear regression analysis is developed as follows:

$$FV = \alpha + \beta_1.IFR + \beta_2.Sec + \varepsilon$$

## Results and Discussion

### *Descriptive Statistics*

This section presents the descriptive statistics of the variables used in this study. The results are shown in Table 1. Table 1 shows that the highest value is 5558.88 and the lowest value is -2825.23. The average value is 2020.85. Furthermore, the standard deviation is 2357.268.

**Table 1:** Descriptive Statistics

Residuals Statistics <sup>a</sup>					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-2825,23	5558,88	2020,85	2357,268	185
Residual	-4915,931	78838,336	,000	7934,523	185
Std. Predicted Value	-2,056	1,501	,000	1,000	185
Std. Residual	-,616	9,882	,000	,995	185

a. Dependent Variable: VALUE

### *Preliminary Analysis: Effect of IFR and Secrecy on Firm Value*

This section presents the results of examining the effect of IFR and secrecy on firm value of the companies in the ASEAN region. Table 2 presents the results of the ANOVA. The results show that there is a significant influence of the independent variables, IFR and secrecy on the firm value of the companies in the ASEAN region.

**Table 2:** ANOVA

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1022435478.484	2	511217739.242	8.032	.000 <sup>b</sup>
	Residual	11584024855.612	182	63648488.218		
	Total	12606460334.096	184			

a. Dependent Variable: Firm value

b. Predictors: (Constant), Secrecy, IFR

Based on Table 3, the results show that IFR and secrecy have a significant effect of 7.1 percent on the firm value of the companies in the ASEAN region. Such result indicates that 92.9 percent are influenced by other variables that not included in this study

**Table 3:** Coefficient of Determination

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.285 <sup>a</sup>	.081	.071	7978.000	1.659

a. Predictors: (Constant), SECRECY, IFR

b. Dependent Variable: VALUE

### *Further Analysis: Effect of IFR and Secrecy on Firm Value*

This section presents further analysis on the effect of IFR on firm value. Using the multiple regression analysis, the results show that IFR does not affect the firm value of the companies in the ASEAN region. Table 4 shows the result showing 0.429 which indicates IFR does not have a significant influence on firm value of the companies in the ASEAN region. Therefore, this study indicates that IFR does not affect firm value, due to index of IFR is still relatively low and companies are still lacking in delivering items of information needed by outside parties such as investors and creditors (Chariri and Lestari, 2007).

**Table 4:** Regression Test Results

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	23401.678	6121.767		3.823	.000		
	IFR	42.658	53.804	.058	.793	.429	.944	1.060
	Secrecy	-343.816	85.854	-.293	-4.005	.000	.944	1.060

a. Dependent Variable: Firm value

Maryati (2014) stated that IFR is the use of internet media to present financial and non-financial company information. Information disclosed in IFR must reflect complete, comprehensive conditions and show the actual terms of the company so that that information can be useful for investors (Maryati, 2014). Investors will judge that a good company is a company that has abundant resources. A company with a high value is a company with an excellent financial position, and vice versa (Dhani and Utama, 2017).

Table 4 also shows the results of hypothesis testing shows that secrecy affects the value of the firm with a significance value of 0.000 below the significance of 0.05. Thus, it can be concluded that the level of secrecy of the company can affect the value of the firm. In this study, secrecy affects the value of the company in a negative direction, thus, the lower secrecy index it will

lead to the higher firm value. Vice versa if the secrecy index is high, then the value of the firm will be small. In line with the research results by Radebaugh and Roberts (1990), secrecy is an activity consistent with strong uncertainty avoidance that prevents disclosure to external parties thereby reducing competence and conflict that can reduce company security.

Gray (1988) stated that secrecy is an accounting value that chooses to safeguard information and does not provide disclosures about business activity. Secrecy tends to prevent disclosure to external parties. A company with a high value is a company with an excellent financial position, and vice versa (Dhani & Utama, 2017).

### **Conclusions**

This study aimed to examine the factors influencing firm value in countries in the ASEAN region. Specifically, this study examined the effect of internet financial reporting practices and financial secrecy on firm value in five countries namely, Indonesia, Malaysia, Singapore, Thailand and the Philippines. Based on the findings shown in this study, it can be concluded that IFR does not significantly influence firm value whereas secrecy has a significant influence on firm value of the companies in the ASEAN region.

This study is not without limitations. First, this study only uses two variables to identify firm value. Second, the object of research used is still limited to the most liquid companies in each country in ASEAN. This study contributes to the existing literature by providing empirical findings on the influence of IFR practices on the firm value of the companies in ASEAN countries. The findings in this study implicate that since secrecy has a significant negative effect on firm value, hence those countries that have high secrecy index must reduce the level of high secrecy index in order to increase firm value through levelling investor's trust on the financial reporting practices of the firms in the ASEAN region.

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