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INTERNET FINANCIAL REPORTING AND DISCLOSURE PRACTICES OF PUBLICLY TRADED CORPORATIONS: EVIDENCE FROM SRI LANKA

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ABSTRACT

Although Internet Financial Reporting (IFR) has become standard practice rather than the exception in most Western countries, empirical evidence of the phenomenon is only just emerging in developing economies. This paper examines the use of the internet as a medium for the voluntary communication of financial information by publicly traded companies on the Colombo Stock Exchange (CSE) in Sri Lanka. The 244 companies listed on the CSE were analysed by its 20 industry sectors. The results indicate that IFR is still at a nascent stage in Sri Lanka and there are considerable opportunities and challenges for all stakeholder parties. While 59 percent of companies maintain websites, only 63 of these (about 43%) use their websites to communicate financial information. This indicates that companies in Sri Lanka do not fully garner the benefits of engaging in IFR. However, the online annual reports of the latter IFR companies were found to be highly accessible, with 87 percent of the websites enabling users to locate information in three mouse clicks or less. Industry affiliation is found to be an important factor in determining the intensity of IFR practices as revealed by the statistically significant Pearson Chi-square test and the Likelihood ratio. It was also found that although a variety of reporting formats are utilised for engaging in IFR, PDF is the most widespread format with 92 percent of CSE listed companies using this medium.

JEL: M4

KEYWORDS: Internet Financial Reporting, Voluntary Disclosure, Electronic Financial Reporting, Financial Report Accessibility, Corporate Communication, Sri Lanka

INTRODUCTION

In recent years, the internet has been recognised as an efficient and effective tool for corporate communication. With this recognition, companies in emerging economies seem to increasingly appreciate the significant advantages of corporate communication though the internet as suggested by the growth of companies engaging in internet financial reporting (IFR) (Nurunnabi and Hossain, 2012). In this study, we investigate and report on the extent and nature of the voluntary use of the internet for the communication of financial information by companies listed on the Colombo Stock Exchange (CSE) in Sri Lanka. Internet financial reporting has become the norm, rather than the exception, in most Western countries (Gowthrope, 2004; Chatterjee and Hawkes, 2008). However, the same cannot be said of companies in emerging economies such as Sri Lanka, where empirical evidence of the phenomenon is only just emerging. Until recently, hard copies (paper) have been the primary means for communicating financial information with shareholders and other corporate stakeholders. Technological advancement has made the internet a useful, timely and cost-effective tool for the communication of this information to stakeholders.

Asian economies in general are steadily moving toward middle and upper-middle income status with significant growth in their economies. These include emerging economies such as Sri Lanka, Thailand,

Malaysia, Philippines, and Vietnam (Lozach et al., 2014). However despite advances in many areas of human endeavour, questions persist as to whether corporate organisations in Asia with some of the world's highest rates of economic growth are fully availing themselves of the opportunity provided by the internet to communicate financial information to their stakeholders. There is little doubt about the benefits of the internet as a tool for the communication of financial information, even as it raises a variety of challenging issues. This paper is an important step in further gauging the extent to which such benefits are being captured in the South Asian region. Given the increasing importance of IFR, and the lack of a comprehensive body of knowledge on IFR practices in South Asia, this paper provides an important contribution to filling the gap in our knowledge of the subject. This is of particular importance in a time when there is so much interest in investment opportunities in the region (Zhang, 2013; Lozach et al., 2014).

To gauge the extent of IFR practices of listed companies in Sri Lanka, the 244 companies listed on the Colombo Stock Exchange website were first identified. The companies' website links where available were then accessed. Otherwise, a search was made for the company website using search engines. If a particular company's website seems to be unavailable from the former two approaches, the respective companies were contacted by telephone and requested to provide their website address, if any. About 59 percent (145 out of 244) of CSE-listed companies were found to maintain websites; of these, however, only 63 (about 43%) engage in IFR, in a variety of formats, types and volume. From the results of this study, it is possible to preliminarily conclude that IFR is still at an embryonic stage in Sri Lanka, providing considerable opportunities and challenges for all stakeholder parties in corporate reporting. This study highlights some of these issues as well as a number of areas for further study. The remainder of the paper is structured as follows. A review of the relevant literature is provided in the next section. This is followed by a discussion of the data and research methodology. The results are presented next, with the final section concluding the paper.

LITERATURE REVIEW

A number of academic studies have presented evidence of IFR practices in various countries – see, for example, Craven and Marston (1999); Deller *et al.* (1999); Gowthorpe and Amat (1999); Hedlin (1999); Lymer *et al.* (1999); Pirchegger and Wagenhofer (1999); Trites (1999); Marston (2003); Oyelere *et al.* (2003); Fisher *et al.* (2004); Gowthorpe (2004); Marston and Polei (2004); Xiao *et al.* (2004); Khadaroo (2005); Laswad *et al.* (2005); Smith and Peppard (2005) and Chan and Wickramasinghe (2006); Oyelere *et al* (2007); Boesso and Kumar (2007); Mohamed *et al* (2009); Nurunnabi and Hossain (2012); Oyelere and Kuruppu (2012); Uyar (2012). They indicate the increasing use of the Internet for corporate dissemination including providing annual reports on the Internet, and that the extent and sophistication of IFR practices varies across countries. Most of the studies in this area have covered IFR practices in Western countries and are on specific IFR issues such as form and content of IFR in these particular countries. Chatterjee and.Hawkes (2008), for example, focused on the specific issue of accessibility of website information, while Debreceny (2002) specifically focused on the importance of the disclosure environment as a driver for IFR presentation and content. Fisher et al. (2004) examined the key audit implications of IFR, while Gowthorpe (2004) examined the communication issues relating to IFR practices of smaller listed companies. This paper provides evidence of the uptake of internet financial reporting in Sri Lanka, which is one of the fastest growing economies in Asia (World Bank, 2014). The extent of IFR practices in Sri Lanka has not been studied before.

The Internet is a convenient and efficient medium of communication for organizations. One of the main benefits of IFR is the potential large savings in the cost of production and distribution of financial information. The Internet allows companies to reach a much wider category and variety of stakeholders at relatively lower costs, with reduction in incidental requests from non-shareholder financial statement users (Allam and Lymer, 2002; Khadaroo, 2005; Boesso and Kumar, 2007). The literature also documents a number of other benefits that may accrue from IFR (Baker and Wallage, 2000; Laswad *et al*, 2000; Ettredge

et al., 2001; Debreceny, *et al.*, 2002; Wagenhofer, 2003; Jones and Xiao, 2004; Boritz and No, 2005; Boesso and Kumar, 2007; Nurunnabi and Hossain, 2010)). These include more equitable information dissemination among stakeholders as a result of improved accessibility to 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 and interactive search facilities. IFR provides an opportunity for going beyond what is available in hard copy corporate financial statements to communicate additional financial information to users, possibly on real-time and interactive bases (McCafferty, 1995; Louwers *et al.*, 1996; Green and Spaul, 1997; Trites, 1999; FASB, 2000; Ettredge *et al.*, 2002; Wickramasinghe, 2006); Oyelere and Kuruppu (2012). For instance, companies are now able to extend financial disclosure beyond the reproduction of a hard copy annual report and improve on the timeliness, scope and interactivity of financial reporting. This can be attained by incorporating financial information provided on the web with multimedia, such as sound, animation and video that can be used to potentially increase the understanding and clarity of the provided information (Louwers *et al.*, 1996; Ravlic, 2000; Wickramasinghe and Lichenstein, 2006). In addition, companies could further extend their financial information disclosure ability through the use of electronic communication languages such as extensible business reporting language (XBRL) (Sheridan and Drew, 2012). These developments have a great potential impact on users (Wallman, 1997; Green and Spaul, 1997; Gowthrope and Flynn, 2001; Sheridan and Drew, 2012).

A number of IFR-related issues and challenges have, however, been noted in the literature. There is the potential 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 et al, 2003; Sortur, 2006), with auditors being possibly required to provide opinion on such hitherto internal financial information (Trites and Sheehy, 1997; Lymer and Debreceny, 2003; Khadaroo, 2005; Sortur, 2006). Also, if IFR is installed as the only mode for communicating financial information, there is the likelihood that access to such information will be restricted to only those who possess computer equipment and skills. Hence, to ensure equity in financial information dissemination, it will be necessary to ensure that the information being reported through corporate websites are already provided previously or simultaneously through other channels of financial information disclosure (McCafferty, 1995). This could however be viewed as unnecessary duplication and may result in even greater costs.

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; the use of corporate websites for many diverse purposes, which may make the location of financial information difficult; the acceptability of Internet financial reports as an alternative to hard copy annual reports among users of corporate financial information; and the fact that Generally Accepted Accounting Practice (GAAP) does not consider some of the implications of IFR, such as the possibility that published financial disclosures can be changed with relative ease post publishing; (Laswad *et al.*, 2000; Mohammed *et al.,* 2009).

Perhaps 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 (Bawaneh, 2014; PwC, 2014). 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.

More recently, some 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; Trabelsi *et al*, 2008; Nurunnabi and Hossain, 2010; Uyar, 2012). Evidence on other variables examined is largely inconclusive.

Less evidence however exists on the nature and extent of this important practice in South Asia (Sortur, 2006; Gakhar, 2012). Studies have only recently started to emerge on corporate IFR practices in the region. For instance, Davey and Homkajon (2004) report that Thai firms used IFR as a complement to their traditional paper based annual reports and that the content and quality of IFR practices varied widely. These findings are similar to Almilia (2009) in Indonesia, where IFR reporting practices of companies were also found to be largely inconsistent, with some companies only choosing to provide partial financial statements while others provided full annual reports. While Khan and Ismail (2012) reports that companies listed on the Main Board of Bursa Malaysia have a high incidence of IFR, other Asian countries such as Bangladesh show a much lesser uptake of IFR by listed companies. Nurunnabi and Hossain (2012) show that only 33 percent of listed companies in Bangladesh engage in IFR.

The only exception to these studies showing a low incidence of IFR in the region is India. Chatterjee and Hawkes (2008) find a high incidence of online corporate reporting by the top 30 Indian companies, as ranked by market capitalization. In a later study that examined the online reporting practices of the top 500 companies listed on the Bombay Stock Exchange in India, it was found that over 98% percent of these companies had links to the annual reports (Shukla and Gekara, 2010). The high incidence of IFR among the largest Indian companies is not surprising given the presence they have in the economy and the investment these companies make in promoting themselves online. It would be more interesting to examine the IFR practices of the smaller listed Indian companies, which comprise the majority of listed firms by number. Consequently, these studies in general reveals that IFR in the region is still in a nascent stage, with a few companies being advanced in their use of the Internet as an additional channel for voluntary communication with stakeholders. Many of the companies in the region, except for the largest listed companies in India are either yet to take up the practice, or are not taking full advantage of the flexibility and communication options offered by the Internet. As shown above, evidence of IFR practices in the region are still relatively sparse. It is predicted that IFR is likely to overtake 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 deposited in the public domain. Such evidence will depend on the outcome of studies such as is being undertaken in the current study.

DATA AND METHODOLOGY

The main objective of this study is to explore and document the nature and extent of voluntary IFR practices of publicly traded companies on the Colombo Stock Exchange (CSE) in Sri Lanka, which is one of the oldest stock exchanges in Asia. It achieves this objective by examining the nature and extent of financial reporting practices on the websites of companies listed on the CSE. The research methodology employed to accomplish this objective is consistent with and parallels those used by Laswad et al., (2005), Oyelere et al., (2007) and Oyelere and Kuruppu (2012). A list of all publicly listed companies was first compiled from the website of the CSE for year 2013. This resulted in examining the data related to 244 companies across its 20 industry categories. Subsequently, information about whether these companies have a website or not were determined at the first instance via the hyperlinks on the CSE website. Where there were no links to the corporate websites on the CSE website, an internet search was made for the company using the www.google.com search engine. For companies that did not produce websites from the latter two approaches, the individual companies were contacted by telephone to determine if they have a website and to ascertain their address. A similar sequence for identifying corporate websites was used by Fisher et al (2004) and Oyelere and Kuruppu (2012).

For companies with corporate websites, we proceeded on to the next stage of the data collection process by investigating the types of information provided on these websites. Specifically, data about five categories of information were obtained relating to the entities' industrial classification, information disclosed about corporate history, products and services, financial information and the publishing format in which the latter information was disclosed. This data collection approach is similar to the one used in Laswad et al (2005), and Oyelere and Kuruppu (2012). The collected data were then analysed using the cross-tabulation procedure and the statistical significance of the association between the variables was further examined by both the Pearson Chi-square test and the Likelihood ratio test. The results of the analysis are presented and discussed in the following section.

RESULTS

Table 1 shows the industry classification of the 244 companies on the CSE by industry.The majority of the listed companies of 58.6 per cent are from six of the twenty industry sectors represented in the CSE. They comprise of: Banks, Finance & Insurance (16.4%), Manufacturing (13.5%), Hotels & Travels (13.1%), Beverage & Tobacco (8.2%), Land & Property (8.2%), and Plantations (7.4%).

Table 1: Industry Classification of Sri Lankan Listed Companies

Industry	Frequency	Percent
Banking, Finance & Insurance	40	16.4
Beverage & Tobacco	20	8.2
Chemicals & Pharmaceuticals	9	3.7
Construction & Engineering	3	1.2
Diversified Holdings	11	4.5
Footwear & Textiles	4	1.6
Healthcare	5	2.0
Hotels & Travels	32	13.1
Info Technology	2	0.8
Investment Trusts	9	3.7
Land and Property	20	8.2
Manufacturing	33	13.5
Motors	6	2.5
Oil Palms	5	2.0
Plantations	18	7.4
Power and Energy	4	1.6
Services	7	2.9
Stores Supplies	5	2
Telecommunications	2	0.8
Trading	9	3.7
Total	244	100.0

Table 1 presents the frequency and percentage of companies in each of the twenty industry codes of the Colombo Stock Exchange.

Only a relatively small number of CSE listed companies maintain corporate websites as shown in Table 2. Approximately 59.4 percent of companies have corporate websites, while the remaining 40.6 percent do not. This reveals a fairly low level of corporate web presence when compared to developed Western economies such as the US, Australia and New Zealand, where corporate web presence is significantly higher (Pervan, 2006; Chatterjee and Hawkes, 2008; Khan and Ismail, 2012) The web presence of Sri Lankan listed companies also lags behind those of other emerging economies in the Middle East (Oyelere and Kuruppu, 2012). For instance, 87 per cent of UAE listed companies maintain websites. Sri Lankan companies' web presence also lags behind other Asian countries where IFR has been studied. Specifically, Malaysia, China and India reports significantly higher web presence and higher adaption rates for IFR compared to Sri Lanka (Chatterjee and Hawkes, 2008; Shukla and Gekara, 2010; Khan and Ismail, 2012). The web presence of Sri Lankan companies compare favourably with Bangladesh, which has a 29 percent presence (Nurunnabi and Hossain, 2012). This initial finding indicates that companies in Sri Lanka have not fully garnered the benefits of internet financial reporting, as IFR cannot be implemented without a corporate website. Only four of the twenty industry sectors lead in the uptake of corporate websites in Sri Lanka, by having a 100 per cent adoption rate. These sectors include Construction and Engineering, Information Technology, Power and Energy and the Telecommunications sector.

Table 2: Companies With and Without Websites by Industry

Panel A:					
Industry	**Without Website**		**With Website**		
	Frequency	**Percentage**	**Frequency**	**Percentage**	**Total**
Banking, Finance & Insurance	6	15.0%	34	85.0%	40
Beverage & Tobacco	10	50.0%	10	50.0%	20
Chemicals & Pharmaceuticals	5	55.6%	4	44.4%	9
Construction & Engineering	0	0%	3	100.0%	3
Diversified Holdings	2	18.2%	9	81.8%	11
Footwear & Textiles	2	50.0%	2	50.0%	4
Healthcare	2	40.0%	3	60.0%	5
Hotels & Travels	19	59.4%	13	40.6%	32
Info Technology	0	0%	2	100%	2
Investment Trusts	5	55.6%	4	44.4%	9
Land and Property	16	80.0%	4	20.0%	20
Manufacturing	10	30.3%	23	69.7%	33
Motors	1	16.7%	5	83.3%	6
Oil Palms	5	100%	0	100%	5
Plantations	7	38.9%	11	61.1%	18
Power and Energy	0	100%	4	100%	4
Services	4	57.1%	3	42.9%	7
Stores Supplies	3	60%	2	40%	5
Telecommunications	0	100%	2	100%	2
Trading	2	22.2%	7	77.58%	9
Total	99	40.6%	145	59.4%	244
	17	12.9%	115	87.1%	132

Panel B: Chi-Square Tests for Companies with and without Websites by Industry			
Test	**Value**	**df**	**Asymptotic Significance (2-sided)**
Pearson Chi-Square	53.841	19	0.000***
Likelihood ratio	61.532	19	0.000***

*Table 2: Panel A presents web presence by industry, while Panel B examines whether corporate web presence is influenced by industry. Significance at 1% or better, 5% or better and 10% or better are denoted by ***, **, and * respectively.*

Industry sectors with moderate to high web presence include companies in Banks, Finance and Insurance (85%); Diversified holdings (82%); Trading (78%); Manufacturing (70%) and Plantations (61%). The web presence of Sri Lankan companies in the financial services sector is lower than in other emerging economies such as the UAE (Oyelere et al., 2008; Oyelere and Kuruppu (2012). At the other end of the spectrum, companies in Hotels and Travels (41%), Investment trusts (44%), Land and property (20%), Oil palms (0%), Services (43%) and Store supplies (40%) have a relatively lower incidence of corporate websites.

Given the wide variation corporate web presence, it is interesting to determine if the presence of corporate websites is influenced by the particular industrial sector a company is operating in. A number of previous studies have examined the association between industry category and disclosure levels. These studies have produced varied results, with industry being found to be a determinant of disclosure levels in some countries (Xiao *et al.,* 2004; Al-Shammari, 2007) but not in others (Smith et al., 2005; Oyelere and Kuruppu, 2012). In the current study, we find that industry category and corporate web presence has a statistically significant association. This is indicated by the statistically significant Chi-square test and the Likelihood ratio, presented in Panel *B* of Table 2. It is plausible that companies in a particular industry follow the information dissemination practices of that industry, especially if it conforms to practices of the leading corporations in the sector. However such an investigation is outside the scope of the current research.

Organisations communicate a variety of voluntary information through their corporate websites. These frequently include background information about the company, products and services offered and also information of a financial nature. Panel A of Table 3 summarizes the types of information provided by Sri Lankan listed companies, categorized by industry. Hundred and eight companies (about 74.5 percent) provide background information about themselves, while a hundred and thirteen companies (about 78 percent) provide information about their products and services. Industry sector is significantly associated with whether a firm disclose information about corporate history and information about the products and

services it offers. This is shown by the significance of the respective chi-square tests and the likelihood ratios in Panel B of Table 3. Despite companies in the majority of sectors utilising their websites to disclose information about the above mentioned aspects, companies in other sectors show a comparatively low level of utilizing corporate websites for disclosing information about corporate history and background. For instance, just 33%, 25% and 36% respectively of companies in the Construction, Land and Plantation sectors disclosed information about their corporate history or background. Companies in these industries also exhibit a lower level of disclosure about their products and services. The reason why companies in these sectors exhibit lower levels of disclosure is not clear. It is possible that companies in these industrial sectors have lesser incentives to communicate these aspects of their corporate existence to their stakeholders. It therefore implies that stakeholders in these industries will need to access multiple sources of information in order to gain full knowledge of the history, background, products and services of companies in these industries.

Table 3: Types of Information on Sri Lankan Corporate Websites

Panel A: Types of Online Information Provided by CSE listed Companies							
Industry		**Company History**		**Products & Services**		**Financial Information**	
		No	**Yes**	**No**	**Yes**	**No**	**Yes**
Banking	Count	2	32	0	34	5	29
	Percentage	5.9	94.1	0	100	14.7	85.3
Beverage	Count	1	9	1	9	8	2
	Percentage	10	90	10	90	80	20
Chemicals	Count	1	3	0	4	2	2
	Percentage	25	75	0	100	50	50
Construction	Count	2	1	2	1	2	1
	Percentage	66.7	33.3	66.7	33.3	66.7	33.3
Div Holdings	Count	1	8	0	9	1	8
	Percentage	11.1	88.9	0	100	11.1	88.9
Footware	Count	0	2	0	2	1	1
	Percentage	0	100	0	100	50	50
Healthcare	Count	2	1	2	1	3	0
	Percentage	66.7	33.3	66.7	33.3	100	0
Hotels	Count	3	10	3	10	11	2
	Percentage	23.1	76.9	23.1	76.9	84.6	15.4
Info Tech	Count	0	2	0	2	2	0
	Percentage	0	100	0	100	100	0
Inv Trusts	Count	0	4	0	4	3	1
	Percentage	0	100	0	100	75	25
Land	Count	3	1	3	1	3	1
	Percentage	75	25	75	25	75	25
Manufact.	Count	8	15	7	16	16	7
	Percentage	34.8	65.2	30.4	69.6	69.6	30.4
Motors	Count	0	5	0	5	5	0
	Percentage	0	100	0	100	100	0
Plantations	Count	7	4	7	4	11	0
	Percentage	63.6	36.4	63.6	36.4	100	0
Power	Count	0	4	0	4	1	3
	Percentage	0	100	0	100	25	75
Services	Count	2	1	2	1	2	1
	Percentage	66.7	33.3	66.7	33.3	66.7	33.3
St. Supplies	Count	2	0	2	0	2	0
	Percentage	100	0	100	0	100	0
Telecom	Count	0	2	0	2	0	2
	Percentage	0	100	0	100	0	100
Trading	Count	3	4	3	4	4	3
	Percentage	42.9	57.1	42.9	57.1	57.1	42.9
Total		37	108	32	113	82	63
Percentage of Total		25.5%	74.5%	22.1%	77.9%	56.6%	43.4%

Panel B: Chi-Square Tests for Types of Information on Corporate Websites by Industry								
Test	**Value**	**df**	**Sig.**	**Value**	**df**	**Sig.**	**Value**	**df**	**Sig.**
Pearson Chi-square	45.262	18	0.000***	57.278	18	0.000***	63.142	18	0.000***
Likelihood Ratio	48.510	18	0.000***	64.305	18	0.000***	75.392	18	0.000***

*Table 3, Panel A presents the types of online information provided by CSE listed companies including financial information. Panel B depicts whether the type of information presented is influenced by the particular industry sector. Significance at 1% or better, 5% or better and 10% or better are denoted by ***, **, and * respectively.*

Although the research literature provides ample support for the benefits of engaging in IFR, CSE listed companies using their corporate websites to voluntarily disclose information of a financial nature are

considerably less. This is apparent when the respective IFR rates are compared with the information provided about corporate history and the products and services offered by the same companies. Specifically, only about 43 percent (63 out of 145) of CSE listed companies maintaining corporate websites made any voluntary financial disclosures. This indicates that the internet as a medium of financial reporting is not as widespread in Sri Lanka when compared to Western countries, where the rate of companies engaging in voluntary internet financial reporting is significantly higher (Pervan, 2006; Chatterjee and Hawkes, 2008). When the Sri Lankan data are further analysed by industrial classification in Table 3, it can be seen that the majority of the industry sectors have a poor adoption rate for IFR. Indeed, sixteen of the nineteen industry sectors having corporate websites have an adaption rate of 50% or less, with companies in Healthcare, Information Technology, Motors, Plantations and the Supplies sectors showing a 0% adoption rate.

However, we find a statistically significant association between industrial affiliation, and the likelihood of a company engaging in IFR. Sri Lankan listed companies in certain industries are more likely to take advantage of the Internet for the purpose of voluntary dissemination of financial information to stakeholders than companies in other industries. Table 3 show that companies in Banking, Diversified Holdings and the Power sectors, report higher IFRS rates of 85.3%, 88.9% and 75% respectively. The reason why the Banking sector show a higher uptake of IFR may be due to the greater regulatory oversight placed on this industry which require greater levels of disclosure due to their significance to the Sri Lankan economy. However, it is less clear why Diversified Holdings and Power also report a higher level of IFR compared to other industries as these sectors are not heavily regulated in Sri Lanka. These findings reflect the fact that most Sri Lankan listed companies do not fully appreciate the potential benefits that can be derived from engaging in IFR. This leaves the opportunity for the main stock exchange regulatory body in Sri Lanka to promote the use of IFR as a means of cost effectively and efficiency communicating corporate information with stakeholders, which is already the norm in Western countries. The statistical test of significance for the association between industry category and the type of information provided on corporate websites is presented in Panel *B* of Table 3. The significance of the Pearson Chi-square test and the Likelihood ratio show that industrial affiliation is an important factor in determining the intensity of IFR practices of listed companies in Sri Lanka.

Companies choosing to engage in IFR can publish financial information in various formats, ranging from PDF to Flash based reports. Publishing formats such as PDF enables interested parties to access information from different computer operating systems. It also it enables different levels of security to be embedded into the document. The main advantage of the PDF format is that software to open and create documents in this format is widely available for free, and the document publisher knows exactly how the document will look to the reader. With other formats such as Flash, audio and video data can also be embedded into the file to present the data in a richer and interactive manner, but the format is probably not very efficient when users want to find specific content, or to copy content from within the flash file for later analysis. The CSE listed companies in this study disclosing financial information were analysed to ascertain the publication format of their financial reports. Table 4 presents these results.

It can be seen that PDF is the most commonly used publishing format for financial information on corporate websites, with 92 percent of companies using it. This was followed by the HTML format, which was used by 6 percent of companies. A graphic (JPG) image of financial data was used by 1.6 percent of the companies. It is interesting to note that none of the CSE listed companies except for the Banking sector utilised multiple reporting formats to report financial information. These findings are also consistent with the reporting formats in other emerging economies such as Oman and the UAE, where PDF is the most commonly used reporting format followed by the HTML format (Oyelere *et al.,* 2008; Oyelere and Kuruppu, 2012). Other reporting formats such as Flash and MS Word was not utilised by Sri Lankan companies, although these formats have been utilised albeit less frequently in other countries (Oyelere and Kuruppu, 2012). Both the Pearson Chi-square test and the Likelihood ratio in Panel B of Table 4 show that there is no statistically significant association between industry affiliation and the preference for one type

of reporting format over another. Irrespective of industry classification, the PDF format remains the most common reporting format for financial information by CSE listed companies, which is also consistent with the widespread use of this format for IFR in other countries (Oyelere and Kuruppu, 2012).

Table 4: Reporting Format of Financial Information

Panel A: Reporting Format(s) Used by IFR Corporations					
Industry		**PDF only**	**HTML only**	**Graphic (JPG)**	**Total**
Banking	Count	24	4	1	29
	Percentage	82.8	13.8	3.4	100
Beverage	Count	5	0	0	5
	Percentage	100	0	0	100
Chemicals	Count	2	0	0	2
	Percentage	100	0	0	100
Construction	Count	1	0	0	1
	Percentage	100	0	0	100
Diversified Hold	Count	8	0	0	8
	Percentage	100	0	0	100
Footware	Count	1	0	0	1
	Percentage	100	0	0	100
Hotels	Count	2	0	0	2
	Percentage	100	0	0	100
Investment Trusts	Count	1	0	0	1
	Percentage	100	0	0	100
Land	Count	1	0	0	1
	Percentage	100	0	0	100
Manufacturing	Count	7	0	0	7
	Percentage	100	0	0	100
Power	Count	3	0	0	3
	Percentage	100	0	0	100
Services	Count	1	0	0	1
	Percentage	100	0	0	100
Telecom	Count	2	0	0	2
	Percentage	100	0	0	100
Trading	Count	3	0	0	3
	Percentage	100	0	0	100
Total		58	4	1	63
		92.1	6.3	1.6	100
Panel B: Chi-Square Tests for Reporting Format of Financial Information					
Test		**Value**		**df**	**Asymp. Sig.**
Pearson Chi-square		6.367		26	1.000
Likelihood Ratio		8.267		26	1.000

*Table 4: Panel A shows the reporting format(s) used by IFR corporations. Panel B examines whether industry classification influences the reporting format. Significance at 1% or better, 5% or better and 10% or better are denoted by ***, **, and * respectively.*

Finally this study examined the ease at which financial information published by CSE listed companies are accessible to interested parties. A number of authors have advocated the so called "Three-click rule". The Three-click rule is based on the premise that information on websites should be accessible to users in ideally no more than three mouse clicks, as more clicks increases users' frustration with accessing data and some users' may not look further for information (Zeldman, 2001; CPRB, 2008). Although this rule is essentially a rule of thumb, it makes good sense in designing websites to provide information quickly without concealing information under layers of hyperlinks (Zeldman, 2001; Porter, 2003; Chatterjee and Hawkes, 2008; CPRB, 2008). Panels A and B of Table 5 show the data pertaining to mouse clicks.

It can be seen that IFR information are directly linked on the main webpage in 6% of the companies, while just two mouse clicks are required to access the data in 32% of the companies. Just under half of the IFR companies require three mouse clicks to access the financial data. This shows that the majority of users (of 87%) are able to locate the IFR data on the corporate websites in three mouse clicks or less, with a mean of 2.71 clicks. This finding is positive in terms of making the financial information readily available to users. However, 9.5 percent of the companies required four clicks and 3% percent of the companies required five mouse clicks. No CSE listed company required more than five clicks to access the published financial information. It would be interesting to investigate whether these rates differ in other countries. However no research exists to the best of our knowledge that examines the 'clickability' aspect from an IFR point of view.

Table 5: Clicks Required to Access Financial Information

Panel A : Ease of Access to the Financial Reports of IFR Companies				
		Frequency	**Percent**	**Cum. Percent**
Mouse Clicks	1	4	6.3	6.3
	2	20	31.7	38.1
	3	31	49.2	87.3
	4	6	9.5	96.8
	5	2	3.2	100.0
	Total	63	100.0	
Panel B: Descriptive Statistics For 'Clickability'				
N	**Mean**	**Median**	**Minimum**	**Maximum**
63	2.71	3.00	1	5

Table 5 indicates the ease of access to the financial reports of IFR companies. This is measured by the number of mouse clicks required to access the financial report.

CONCLUDING COMMENTS

This research examined the extent to which CSE listed companies in Sri Lanka use the internet to voluntarily communicate financial information. This was done by analysing the reporting practices of the 244 companies listed on the CSE. We found that the majority of these companies of 59.4% maintain corporate websites, while the remaining 40.6 percent do not. However the former rate is a significantly lower one when compared to Western countries, and indeed to other emerging economies such as the UAE, Oman and India. The results show that Sri Lankan listed companies have not taken full advantage of the benefits of disclosing financial information through the internet. This is despite the high IT literacy in Sri Lanka, which is routinely exported to countries in the Middle East and elsewhere. A possible reason for this phenomenon that has led to the relatively lower IFR adaption rate may be related to the regulatory authorities in the country and also the management of companies not fully appreciating the benefits of reporting financial information using the internet.

An analysis of the types of information presented on CSE listed corporate websites show that most companies primarily utilize websites to communicate background information about the company, and the products and services they offer. Indeed, 75 percent of companies communicated information about the corporate background through their websites, and 78 percent of the companies disseminated information about the products and services provided. However, only 57 percent of the companies used corporate websites to disseminate financial information, with the remaining 43 percent of the companies not utilizing corporate websites for financial reporting purposes. It therefore appears that IFR is not a primary motive for the establishment and utilisation of corporate websites in Sri Lanka. This indicates that the general relationship between whether a company maintains corporate websites and whether it actually engages in IFR is not a clear or strong one in Sri Lanka. Interestingly, we found a statistically significant association between industrial affiliation, and the likelihood of a company engaging in IFR. Companies in certain industries such as in Banking are more likely to take advantage of the Internet for the purpose of voluntary dissemination of financial information to stakeholders than companies in other industries.

Despite the fact that most Sri Lankan listed companies maintain corporate websites, this study found that, in the main, they exhibit a relatively lower level of IFR compared to Western countries. It was found that although about 59 percent of CSE listed companies maintain websites, only 43 percent of these used their websites to communicate financial information with their stakeholders. In many Western countries, the uptake reaches 100 percent (Fisher *et al.,* 2004; Pervan, 2006; Chatterjee and Hawkes, 2008). Perhaps companies in the Sri Lanka do not fully recognise the significant benefits that could accrue to them by engaging in IFR. It is also possible that listed companies in Sri Lanka do not see an incremental benefit in engaging in IFR, given that the financial information of most companies is already published through the website of the CSE (http://www.cse.lk). This should, however, not be the case, as companies should endeavour to take control and responsibility for the information communicated to their stakeholders. In countries such as the UK, USA, Malaysia and Singapore, companies actively engage in IFR despite the fact

the some of this financial information may be already available on the websites of the respective stock exchange websites. In these countries, IFR is already the norm among companies rather than the exception.

Management's perception about the cost of engaging in IFR and the technological expertise needed may be other issues limiting the widespread implementation of IFR among companies. However, apart from initial set-up costs, which are relatively minor, the ongoing long-term costs of operating and maintaining corporate websites for IFR purposes are minimal. Initial set-up costs could include computers systems and equipment acquisition, system design and implementation costs, including consultancy charges, general and application control costs of the system, and ICT space and infrastructural requirements. While initial set-up costs could be substantial, they are usually relatively minor in comparison to other corporate costs. The benefits to be derived from IFR in the current age of globalisation and endemic market inter-linkages are likely to far outweigh the pecuniary costs. The current level of technological expertise and development in Sri Lanka is more than adequate for the creation, operation and maintenance of corporate websites for IFR purposes. As the Internet gains greater popularity, it is likely that emerging economies such as Sri Lanka will witness an upsurge in IFR over the next five years and regulators and other governmental agencies, as well as other stakeholder groups will need to be prepared for this development.

The above findings have to be seen from the context of the benefits accruing to companies engaging in IFR. They have the potential to substantially reduce the costs associated with traditional paper based financial reports, and be able to make information available to interested parties on a timely basis. The production and distribution of hardcopy financial statements could be cumbersome and costly, particularly where a company's stakeholders are widely dispersed. Globalisation has made this even more complicated for companies, as stakeholders could be located in several countries around the world. The advent of the internet makes it possible for a company to disseminate financial information to most of its stakeholders in a cost-efficient and timely manner.

Indeed, in light of this, the OECD in its Principles of Corporate Governance recognizes that the Internet and other information technologies provide the opportunity for improving information dissemination (OECD, 2004). More recently, Report Leadership (2007) which is a multi-stakeholder group comprising the Chartered Institute of Management Accountants, PriceWaterhouseCoopers and Radley Yeldar has put forward a number of proposals for effective corporate reporting on the internet. Other authorities, such as the Canadian Institute of Chartered Accountants have also recognised the internet as a key medium for communicating financial information (CPRB, 2008). In this environment where both regulators and the accounting profession perceive the potential benefits of internet financial reporting, regulatory agencies in the Sri Lanka cannot afford to postpone the great advantages offered by IFR by letting companies adapt IFR at their own pace and in an unstructured setting as to what information should be disclosed and when, in what format and also how to differentiate between audited and unaudited information. Regulators in Sri Lanka need to take a more proactive role in promoting the benefits of IFR, whilst at the same time addressing the regulatory framework that may be necessary for the more widespread but structured adoption of IFR.

In this regard, guidance provided by IFAC (2002) and Report Leadership (2007) may be used by regulators in Sri Lanka as a foundation for addressing issues such as (a) the types of information to appear on a corporate website and the format in which that information will be provided; (b) how to differentiate between audited and non-audited information, as well as information that is subject to securities and market regulation and information that is meant to supplement what is required; (c) the use of hyperlinks; (d) the frequency of changes to or updates to financial information and (e) control issues such as approval of financial information that ultimately appears on a corporate website and the security infrastructure. Given the increasing use of the internet as a medium of communicating financial information, more research is needed to better understand the dynamics of why some firms engage in voluntary internet financial reporting whilst others do not, and the costs of engaging in the same. Additional research should also help

end users differentiate between audited and non-audited financial information on corporate websites, and the responsibilities of key groups, including external auditors, as even more entities increasingly rely on the internet to communicate financial information. Studies may further investigate the key determinants of IFR practices in the region, and the extent to which XBRL can facilitate the adaption of online financial reporting.

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