



PROCEEDINGS OF PRAGMATIC CONSTRUCTIVISM

journal homepage: www.ProPraCon.com

Information on the investor relations websites – How to study its usefulness? A research proposal

Svetlana Sabelfeld

Research Student Accounting Communication

University of Gothenburg; School of Business, Economics and Law

Vasagatan 1, 40530 Göteborg, Sweden; svetlana.sabelfeld@handels.gu.se

Abstract

This paper can be seen as a preliminary research proposal to my continued PhD project. My expectation is therefore to receive your feedback concerning the whole proposal, and, specifically, I would appreciate if you could suggest how to conceptually frame this project; and also if you could provide me with your feedback concerning methodology.

1 Introduction

My project is about usefulness of corporate disclosure, provided via companies' investor relations (IR) websites.

In recent decades, capital markets have become more international (Nobes, 2006). This effect of globalization has stimulated analysts and investors to consider investment opportunities in a more open and international way, giving them opportunities to assess and compare companies across borders. At the same time, corporate reporting has been facing 'online revolution' as corporations have increasingly used Internet as a medium for dissemination of accounting information¹. Emergence of the Internet and the World Wide Web (the Web) has enabled companies to efficiently provide information to the international investment community. With the increase of the investors' geographical dispersion, paper-based reporting becomes limited and expensive for the companies, in terms of capacity of reaching the international investors. Internet disclosure, being cost effective, fast, easily accessible and responsive in format, provides significantly more opportunities for performing timely and comprehensive reporting, in contrast to the paper-based annual reports (Debreceeny, Gray, & Rahman, 2003). Benefiting from such advantages, companies have actively adopted this new channel of information, addressed to analysts, investors and other stakeholders. A corporate website has consequently become an independent channel for distributing materials for investor relations purposes (Debreceeny, Gray, & Mock, 2001; Lymer, 1999).

Besides previously mentioned benefits of the Web, there are also problems related to insufficiently regulated environment of this information source. Limited regulation, addressed to the issue of Internet disclosure, may cause inconsistency in the presentation of the financial and non-financial information which can be a barrier for the analysts to quickly retrieve attributes needed for the assessment of corporations (Debreceeny et al., 2001; Fisher, Oyelere, & Laswad, 2004; Xiao, Yang, & Chow, 2004). Companies may present too much information in a complicated and unstructured way, which can lead to a cognitive overload and distraction of the reader (Debreceeny et al., 2001).

In the academic research, there are number of papers that investigate information provided on companies' IR websites in terms of comprehensiveness of its content and form (Abdelsalam, Bryant, & Street, 2007; Debreceeny et al., 2001; Fisher et al., 2004; Hedlin, 1999; Lymer, 1999; Marcus & Wallace, 1997; Pirchegger & Wagenhofer, 1999; Xiao et al., 2004). In those previous studies, the assumption that companies disclose information on their websites in order to satisfy the user's needs is taken for granted, without specifying how exactly and by whom such information is used. As a result, we still don't know how the information provided via companies' IR websites is actually used by such actors of financial community as financial analysts and institutional investors. This knowledge is believed to be important because it would contribute to the efficiency of company-investor communication on the Web. The importance of the

¹ Call for Papers From: Accounting, Auditing and Accountability Journal, 2005, Volume 18, Issue 1.

link between disclosure practices and user information needs is highlighted by Young (2006), whose paper “Making up users” raises the issue of taken-for-granted but never discussed needs of the users of corporate reporting. A study of how information on the IR websites is used, may also contribute to the issue of relevance of disclosed information.

Thus, the main research question of this study is preliminary formulated as follows.

Does the current package of information provided via corporate IR websites meet users' need for information?

This question addresses both provider- and user-perspectives on IR web disclosure. To answer the main question, three following sub-questions are placed in focus.

1) What do companies in different financial markets disclose on IR websites?

The idea behind this question is to find out type, amount, formats, navigation patterns and dynamics of disclosed information. A deeper qualitative analysis of one or two selected information categories is also a part of this sub-question.

2) How domestic vs international versions of IR websites differ from each other? (if they differ at all)

By studying this question we will be able to build assumptions about what kind of picture of themselves that companies communicate to the international/domestic financial communities via IR websites.

3) How are IR websites used by domestic and international actors of financial community?

The aim of this question is, first, to find out if the information, communicated via IR websites, is used by institutional investors and financial analysts. Second, if the information is used, then investigate what categories, items and formats of information are considered to be most important and in what situations they are used. Our focus on the two above mentioned groups of users is based on the assumption that institutional investors (mainly pension and mutual funds) dominate the investment process and are responsible for the majority of trading volume of stocks (Jonas & Young, 1998). In such process, financial analysts are also playing an important role, being involved in the investors' decision making process as advisors.

Consequently, the purpose of this study can be formulated as in-depth analysis of the IR website disclosure from, first, provider-user perspectives and, second, domestic-international perspectives.

2 Previous studies of users of internet reporting

OBS! In this paper I only mention previous studies of users of Internet reporting and not discuss Internet reporting from the provider-perspective (an extensive review of the Internet reporting research from the provider-perspective can be found in my licentiate thesis)

In the field of accounting, there is a very limited number of academic studies that address users of accounts and connect corporate accounts to the users' decision making process (Jonas & Young, 1998; Young, 2006). This is also the case, when it comes to the accounting standard setting process. Even though standard setters, including Financial Accounting Standard Board (FASB), claim that the main objective of the standards is to be useful on the financial market, there is evidence showing that users' needs are not yet a focus of the standard setters (Jonas & Young, 1998). Jonas and Young (1998) articulate several reasons for that. First, because achieving of the understanding of the usefulness of information is a complex and very hard task. That is due to the fact that decision usefulness, by its nature, is difficult to quantify. A second reason is that there are fundamental differences between training and experiences of accountants and those of users. Third, the users are found to be unmotivated when it come to a collaboration with the information standard-setters, because they might gain a competitive advantage from information that is not available to all.

To date, only two user-studies are found in the current Internet reporting research. In 2001, Debreceeny, Gray and Mock (2001) investigated what users prefer in terms of form and content on the financial websites. The authors used a Web survey as a research tool and the results were based on the response of 169 potential users, among which 58% are from education/training industry and 23% are professional accountants. The second article, written by Rowbottom, Allam and Lymer (2005), studied usage of investor relations information through the analysis of Web server logs files, i.e. the information on each 'request' from the user, that reveals IP address of the user, how the user navigates on the website, how many times and which information category the user accesses, the average time the user spends on each page, page views over the year and more.

Both studies have limitations. The first study's results are based on the surveys of the group of the respondents who are not necessarily analysts, investors or actual users of companies' websites. Besides, this study generated

somewhat too broad categories, which might depend on too broad groups of respondents and too general content of the survey. The other study's limitation is that the type of users taken from the Web server log files is not identified in terms of profession, i.e. the study does not have focus on investors and analysts as a specific group of web users and therefore only generating results about general navigation patterns.

3 Methodology of the study

3.1 Choice of financial markets

Even though globalization of the financial market has triggered a process of harmonization of the financial reporting, institutional and cultural differences still impact companies' financial reporting and corporate disclosure, which constitutes a barrier to harmonization of the reporting across borders (Doupnik & Salter, 1995; Koga & Rimmel, 2007; Nobes, 2006). Existing of such impact motivates the study to take an international perspective and explore different financial markets.

Four financial markets are selected for investigation; these are biggest stock exchanges in the UK (LSE), Sweden (Stockholm OMX), Japan (TSE) and Russia (MICEX). According to existing comparative international accounting literature and comparative corporate governance literature, these four financial markets differ from each other in terms of legal systems origin, accounting practices and patterns of corporate governance. Accounting practice and corporate ownership patterns in these countries steams originally from different traditions.

Nobes (1998) and La Porta (1999; 1997) connect differences in accounting practices and corporate governance traditions to regulatory systems in different countries. For example, UK is a common law country with a high level of investor protection and therefore a diversified equity tradition. Companies in the UK tend to use principle-based accounting practices, which are related to an Anglo-Saxon accounting tradition. If we follow Common law (Anglo-Saxon) vs. civil law (Continental) classification, accounting in Sweden and Japan is classified as being mostly influenced by a continental rule-based tradition. However, some researchers classify Japan and Sweden to different groups. According to Nair and Frank (1980), accounting in Japan has also received some impact from the US, which means that practices in Japan has been developed under both European continental and Anglo-Saxon traditions. Speaking of corporate governance, Japan is considered to be a country with a low level investor protection and thereby with the concentrated corporate governance pattern (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). Sweden belongs to a Scandinavian legal system origin, which is considered to be quite close to a German civil law countries, but differs in a way of being rather state-focused rather than bank-focused (La Porta et al., 1997). Russia, according to La Porta (1999), belongs to a socialist legal system where the socialist practices serve to enhance the power of the State. This results in a very high level of centralization of regulations and practices around the State.

Even accounting values vary between different financial markets. According to Gray (1988), companies in Japan and Russia, where the level of uncertainty avoidance, power distance and collectivism is strong, tend to disclose less information, while companies in the UK and Sweden are considered to be an opposite to Japanese and Russian companies. This model is also consistent with the results of Bhat, Hope and Kang (2006) who investigated corporate governance transparency in a number of different markets and came to a conclusion that corporate governance in UK and Sweden is more transparent than in Japan.²

Even though there are some small variations in classifying the four selected financial markets by different researchers, still we can see systematic differences in accounting traditions and corporate governance patterns, which steam from different legal system origins of those countries. The above mentioned classifications help us to build expectations concerning transparency of corporate governance and usefulness of information, communicated via companies' IR websites. Our expectation is that companies in financial markets with the Anglo-Saxon and Scandinavian traditions, where investor protection is high and companies may have a spread equity pattern, are more transparent in their investor communication via IR websites compared to companies from German-model and Socialist model countries, where corporate ownership is more concentrated due to either State or Bank power.

3.2 Choice of companies

In this study, IR websites of the largest industrial companies are chosen for investigation. That is because the values of financial markets are dominated by the largest companies (La Porta et al., 1997). Additionally, the logic behind the choice of large companies derives from the results of previous empirical disclosure research, which finds an association between company size and volume of disclosure. As one of the main objectives of corporate reporting is articulated as

² Russia is not included in the sample of Bhat et al (2006).

to supply users with information and enable them to make decisions concerning allocation of resources, the information and disclosure volume are assumed to be crucial in this process (Cooke & Wallace, 1990; Hassan & Marston, 2010; Healy & Palepu, 2001). Previous research finds that bigger companies tend to voluntarily disclose more information. Greater extend of disclosure helps those companies to be more attractive to investors, as it decreases investor's risks and uncertainties in the process of investment decision (Debreceeny et al., 2003; Hassan & Marston, 2010; Healy & Palepu, 2001).

Further, a sample of 40 large industrial companies (10 from each market) is going to be selected for investigation. 10 industrial companies out of 100 largest publicly listed companies will be made in each market.

3.3 A study of IR websites from the provider-perspective

RQ 1 What do companies in different financial markets disclose on IR websites?

RQ 2 How domestic vs international versions of IR websites differ from each other?

Here I will do an inductive content analysis of domestic and international versions of IR websites of UK, Swedish, Japanese and Russian companies. The idea is to analyze both domestic and international versions of companies' websites and see if those two versions differ from each other. This will help us to see what picture of themselves companies create and communicate to the international/domestic financial communities via IR websites.

Analysis can be conducted in four levels:

- Level 1: overview of the content
- Level 2: analysis of media, in which the information is presented
- Level 3: in-depth analysis of one or two chosen categories' quantity of information (for example pick categories 'corporate governance' and 'financial info')
- Level 4: in depth analysis of one or two chosen categories' quality of information (analyze it from the relevance and usefulness-perspective)

In order to improve reliability of the study, IR websites are suggested to be studied in a longitudinal basis, i.e. every quarter during one year.

3.4 A study of IR websites from the provider-perspective

RQ 3 How are IR websites used by analysts and investors?

The aim of this question is, first, to find out if the information communicated via IR websites is used by analysts and institutional investors. Second, if the information is used, then investigate what items of information are considered to be most important and are mostly used.

This question can be studied by conducting open semi-structured interviews with financial analysts and investment managers in Sweden, UK, Japan and Russia. The idea with the interviews is that respondents would provide us with knowledge about how and in what situations they use companies' IR websites. By obtaining this type of data we would be able to see, which information send via companies' IR websites is actually used and in what situations it is used. The interviews might be even designed in a way that they distinguish between international and domestic analysts/investors. Due to a geographical distance and limited physical access to the respondents in different financial markets, the interviews are planned to be conducted by phone.

References

- Abdelsalam, O. H., Bryant, S. M., & Street, D. L. 2007. An examination of the comprehensiveness of corporate internet reporting provided by London-listed companies. *Journal of International Accounting Research*, 6(2): 1-33.
- Bhat, G., Hope, O. K., & Kang, T. 2006. Does corporate governance transparency affect the accuracy of analyst forecasts? *Accounting & Finance*, 46(5): 715-732.
- Cooke, T. E., & Wallace, R. 1990. Financial disclosure regulation and its environment: A review and further analysis. *Journal of Accounting and Public Policy*, 9(2): 79-110.
- Debreceeny, R., Gray, G. L., & Mock, T. J. 2001. Financial reporting websites: what users want in terms of form and content. *The International Journal of Digital Accounting Research*, 1(1): 4.
- Debreceeny, R., Gray, G. L., & Rahman, A. 2003. The determinants of Internet financial reporting. *Journal of Accounting and Public Policy*, 21(4): 371-394.
- Doupnik, T. S., & Salter, S. B. 1995. External environment, culture and accounting practice: a preliminary test of a general model of international accounting development. *International Journal of Accounting*, 30(1): 189-207.
- Fisher, R., Oyelere, P., & Laswad, F. 2004. Corporate reporting on the internet: audit issues and content analysis of practices. *Managerial Auditing Journal*, 19(3): 412-439.
- Gray, S. J. 1988. Towards a theory of cultural influence on the development of accounting systems internationally. *Abacus*, 24(1): 1-15.
- Hassan, O., & Marston, C. L. 2010. Disclosure measurement in the empirical accounting literature - A review article. *SSRN eLibrary*.
- Healy, P. M., & Palepu, K. G. 2001. Information asymmetry, corporate disclosure, and the capital markets: a review of the empirical disclosure literature. *Journal of Accounting and Economics*, 31(1): 405-440.
- Hedlin, P. 1999. The Internet as a vehicle for investor relations: the Swedish case. *European Accounting Review*, 8(2): 373-381.
- Jonas, G., & Young, S. 1998. Bridging the gap: who can bring a user focus to business reporting? *Accounting Horizons*, 12(2): 154-159.
- Koga, C., & Rimmel, G. 2007. Accounting harmonisation and diffusion of International Accounting Standards: the Japanese case. In K. C. Jayne Maree Godfrey (Ed.), *Globalisation of New Accounting Standards*: 218ff. Cheltenham Glos: Edward Elgar Publishing.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 1999. The quality of government. *Journal of Law, Economics, and Organization*, 15(1): 222-279.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 2000. Investor protection and corporate governance. *Journal of financial economics*, 58(1): 3-27.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. 1997. Legal determinants of external finance. *The Journal of Finance*, 52(3): 1131-1150.
- Lymer, A. 1999. Internet and the future of reporting in Europe. *European Accounting Review*, 8(2): 289-301.
- Marcus, B. W., & Wallace, S. L. 1997. *New dimensions in investor relations: Competing for capital in the 21st century*. New York, NY: John Wiley.
- Nair, R. D., & Frank, W. G. 1980. The impact of disclosure and measurement practices on international accounting classifications. *Accounting Review*: 426-450.
- Nobes, C. 1998. Towards a general model of the reasons for international differences in financial reporting. *Abacus*, 34(2): 162-187.
- Nobes, C. 2006. The survival of international differences under IFRS: towards a research agenda. *Accounting and Business Research*, 36(3): 233-245.
- Pirchegger, B., & Wagenhofer, A. 1999. Financial information on the internet: a survey of the homepages of Austrian companies. *European Accounting Review*, 8(2): 383-395.
- Rowbottom, N., Allam, A., & Lymer, A. 2005. An exploration of the potential for studying the usage of investor relations information through the analysis of web server logs. *International Journal of Accounting Information Systems*, 6(1): 31-53.
- Xiao, J. Z., Yang, H., & Chow, C. W. 2004. The determinants and characteristics of voluntary internet-based disclosures by listed Chinese companies. *Journal of Accounting and Public Policy*, 23(3): 191-225.
- Young, J. J. 2006. Making up users. *Accounting, Organizations and Society*, 31(6): 579-600.