Corporate Web Site Reports: Some Evidence on Relevance and Usefulness

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ABSTRACT

We investigate whether corporations are following the “best disclosure practices” when presenting business reports on their Web sites. As a benchmark, we use the recommendations made by the Jenkins Committee (1994) to improve corporate reporting practices, to evaluate reports presented on corporate Web sites for their value, relevance, and quality of information. We compute a disclosure score using 26 items recommended by the Jenkins Committee and Meek et al. (Meek, Roberts, & Gray, 1995) as indicators of best reporting practices. Our findings reveal that most corporations do not follow “best disclosure practices” when reporting information on their Web sites. Only about half of the 26 disclosure items recommended by the Jenkins Committee are reported, and less than 50% of the sample firms in our study make such disclosure. Some of the items that the Jenkins Committee recommends as essential for improving quality and relevance of reporting such as forward-looking information (e.g., plans, opportunities and risks, forecasts, critical success factors), nonfinancial items (e.g., changes in operating performance, research and development activities), or off-balance sheet financing, are least often reported. The findings suggest that corporations must improve their Web site disclosures for investors to find them valuable, relevant, and useful.

Keywords: adequacy of information; corporate Web site; information quality; relevance of information; Web site content

INTRODUCTION

The World Wide Web or Internet is becoming an important medium to communicate information about an organization and its activities. A survey of the members of the National Institute of Investor Relations finds that investment relations departments are striving to fulfill investors’ demands for online information (Investor Relations Business, 1999, 2001). Corporations recognize that providing information online is operationally and strategically advantageous (Berk, 2001; Clarksworthy, 2000; Ettredge, Richardson, & Scholz, 2001; Stewart, 1998). Studies indicate that corporations disclosing information derive benefits in the forms of increased market liquidity (Welker, 1995), lower cost of capital (Botosan, 1997), and enhanced institutional and analyst interest in the
firms’ stock (Healy, Hutton, Palepu, 1999; Lang & Lundholm, 1996). Corporations also reduce costs by distributing information through their Web sites, widening the geographical coverage, and providing access to investors all over the world. The greater and quicker access to important information about corporate activities available through interactive and connected reports provides investors with rich and useful information for their decision making.

In the past, several studies examined the content of Web-site reports and the characteristics of corporations that provided financial reports on their Web sites (Ashbaugh, Johnstone, & Warfield, 1999; Debreceny, Gray, & Rahman, 2002; Ettredge, Richardson, & Scholz, 2002; Petravick, 1999; Petravick & Gillet, 1996). A few studies also examined the content of Web-site reporting along several dimensions including timeliness (Petravick & Gillet, 1998), completeness (Ettredge, Richardson, & Scholz, 2000), and types of information and presentation (Beck, 2003; Caballero, Gomez, & Piattini, 2004; Debreceny et al., 2002; Ettredge et al., 2002; Matheus, 2004; Moustakis, Litos, Dalivigas, & Tsironis, 2004). However, these studies did not examine whether the disclosure items and the presentation were relevant to investors, or conformed to standards of quality reporting.

The issues of relevance and usefulness of information presented at corporate Web sites have become very important in today’s corporate environment. Concerned by scandals and failure of some major corporations (e.g., Enron), in the year 2002, the Sarbanes-Oxley Act (SOA) was passed. The SOA demands that corporations improve their reporting practices. Similarly, Regulation FD, issued by the SEC in October 2002, also requires that publicly traded companies simultaneously supply information to professional security analysts and retail investors. The SEC specifically encourages the use of the Internet to ease the distribution of information to small investors, and to make such information available without the intervention of intermediaries (SEC Release No. 33-7881). Section 409 of the SOA also emphasizes the importance of real-time reporting. The Act requires that corporations immediately disclose to the public any changes in financial condition and operating results.

The importance given to improving reporting practices in recent acts such as SOA and Regulation FD, and the use of online and real-time media for such purposes make corporate Web sites a prime source of information for investors. However, corporate Web sites can fulfill expectations only if the sites provide relevant information on a timely basis, and conform to “best reporting practices.” Therefore, in this study, we examine Web site reports, and ascertain to what extent they follow “best reporting practices.” We define “best reporting practices” as disclosures that are relevant and useful to investors, and that conform to recognized standards of disclosures. Studies examining information quality identified several dimensions of quality (Moustakis et al., 2004; Pipino, Lee, & Wang, 2002; Zhang, 2000). Moustakis et al. (2004) use the following criteria to assess Web site quality: content, navigation, design and structure, appearance and multimedia, and uniqueness. Since the focus of the current study is online business reporting, we focus only on the relevance and usefulness of content.

At present, there are no commonly accepted standards to indicate what constitutes “best reporting practices.” Therefore, we use the Jenkins Committee’s (1994) recommendations on improving business reporting as a benchmark to evaluate Web site disclosures and reports. We chose the Jenkins Committee recommendations as the standard because it was developed after obtaining direct input from various information users, and after the committee identified the types of information that are useful and relevant for investor decision making.

We evaluated “best reporting practices” by noting the types of items disclosed on corporate Web sites, and then compared them to 26 disclosure items grouped in 5 broad categories of financial and nonfinancial disclosure items that the Jenkins Committee recommends.
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