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THE DETERMINANTS OF INTERNET FINANCIAL REPORTING IN PAKISTAN

Arif Hussain [1] Alam Rehman [2] and Amir Ishaq [3]

ABSTRACT

Internet financial reporting is the dissemination of firm's financial and performance information via Internet. This form of reporting made the voluntary disclosure much easier. As there are additional costs for printing and mailing information, when investors are widely dispersed. Internet financial reporting has multiple advantages of timeliness, cost efficient, wider reach and availability at the same time to all stakeholders. And when the information is available to all stakeholders at the same time it lowers the information asymmetry and leads to transparency. This study is based on the determinants of internet financial reporting in banking sector of Pakistan. Firm size, ratio of market value to book value, firm leverage and firm foreign listing were used as variables to explain the internet financial reporting in commercial banking sector of Pakistan. The result shows that there is a positive association among internet financial reporting, firm size, firm leverage and foreign listing. The result further concluded that firm size and ratio of market value to book value have significant positive impact on internet financial reporting while firm leverage and foreign listing have insignificant positive impact on internet financial reporting for commercial banks in Pakistan. The internet financial reporting was calculated by adopting the disclosure index used by Debreceny et al. (2001).

Key Words: Internet Financial Reporting, Commercial Banks, Leverage, Size, Foreign Listing.

INTRODUCTION

With the interference of technology, every field of life has changed the world surprisingly. This change is up to the extent that it becomes a need and no more a want. Same is the case with the field of business. In this study the internet forms of technology in the field of business. Internet financial reporting is the dissemination of firm's performance and financial information via internet. Because it is the easiest way of getting information, and also there is a demand for information from stakeholders, companies should disclose information via internet (Debreceny et al., 2002). Moreover, they argued that through the internet disclosure firm not just shares information with existing shareholders, but this information can also be accessed by potential investors. IFR is the best way of timeliness availability of information to all stakeholders, which leads to transparency. In normal paper-based financial reports the information can only be communicated to specific group while by adopting internet financial reporting, information can be communicated to unidentifiable investors. By using internet financial reporting, the firm's financial and performance information will be available to public globally without any restrictions. With internet financial information firms can disclose financial information on their websites too. Internet financial reporting also empowers firms to disclose the annual reports along with additional financial and non-financial information in

[1] Assistant Professor, Abdul Wali Khan University, Mardan. arifhussain@awkum.edu.pk

[2] Assistant Professor, National University of modern Languages, Peshawar Campus. alamrehmannuml@numl.edu.pk

[3] Assistant Professor, National University of Modern Languages, Peshawar Campus. amir.riui@gmail.com

much better (audio, video) formats to broader audience, which in recent years has got much research attention (Agboola & Salawu, 2012). But, it is yet to be find out that whether Pakistani firms are optimally utilizing internet financial reporting to the full or not. As there no such studies conducted to find the determinants which influence companies for disclosing financial and performance information over internet in Pakistan. Thereby, it is needed to examine the role of internet in reporting of financial information in Pakistan. Moreover, if shareholders are in large number and are in widely dispersed territories then the associated costs with mailing and printing of hardcopies of annual reports will also be high as each and every shareholder is entitled to a get a copy of annual report. As it will raise the expenditures of company which will result in negative impact on the firm's profits (indicator of firm's performance). The dissemination of information via internet cost is much lesser than that of the printed based annual reports. The dissemination of e-reports is much cheaper than that of printing and mailing annual reports, so firms are going for IFR as a mean for information distribution which can eliminate printing and mailing cost. Internet provides various kinds of information i.e. financial, non-financial, qualitative, non-audited, social and environmental information. Moreover, up-to-date information can also be disseminated about company new events, press releases, firm products and services via internet, which is costly and inconvenient to present in hard copy.

Problem Statement

Internet has become an important part of daily lives of people; companies therefore use their websites to disseminate important information to their current and prospective investors and customers. Company websites provide additional information to capital markets. It is important for private investors as compared to institutional investors as they don't have other sources to access information alternatively. Therefore disclosure of information through company websites and internet benefit the companies. In this respect it is assumed that there are certain factors which affect the extent of information disclosure by companies on company websites and internet. This study will explore the factors that explain the extent of information disclosure through internet and company websites.

OBJECTIVES OF STUDY

The specific objectives of this study are:

1) What is the impact of firm size on internet financial reporting?
2) What is the impact of market value to book value on internet financial reporting?
3) What is the impact of leverage on internet financial reporting?
4) What is the impact of foreign listing on internet financial reporting?

LITERATURE REVIEW

Internet Financial Reporting

Internet can be used as a useful tool for reporting of information. The main advantage of internet financial reporting is the saving the large amount which incurs on the financial information's production and distribution. Companies can provide information to much widespread stakeholders on lesser cost than the conventional form of providing information. According to Allam and Lymer (2002), use of internet financial reporting likewise reduces the incidental appeals from all stakeholders other than stockholders. Many other advantages are also documented by literature which

which may be accumulated from the use of internet financial reporting (Baker & Wallage, 2000). As internet provides access to random data via interactivity, search facilities and hyperlinks so with the use of internet financial reporting user can access the information that he needs. By adopting internet financial reporting company can avail the opportunity of providing additional information along with existing information of annual reports.

McCafferty (1995) argues that internet offers a chance of information reporting of multiple formats than that in hard copy, as multimedia content cannot be presented in hard copy, as well as availability of information on real time. Internet Financial Reporting helps firms in the disclosure of their financial information without using paper form but with the production of electronic reports. The generation of Electronic Reports instead of paper reports helps firms by decreasing their time, cost and it also accommodates the use of audio and visual aids in the reporting process (Louwers et al., 1996).

Ashbaugh et al. (1999) study the importance of Internet Financial Reporting i.e. whether it improves the value of information or not. Their study suggests that companies consider Internet Financial Reporting as a better communication medium with their stakeholders. Internet Financial Reporting has a significantly positive relationship with the size of the firm in British companies (Craven & Marston, 1999). According to Pirchegger and Wagenhofer (1999) qualities of Internet Financial Reporting have a significantly positive relationship with the firm size represented by the ownership of stock in Austrian's Stock exchange's public companies.

The decision to disclose financial information to the Security and Exchange Commission and voluntary disclosure of information is mainly affected by the size of the firm. The size of the firm has a positive relationship with the voluntary disclosure of information (Ettredge et al. 2002).

A study conducted by Debreceny et al. (2002) concluded the following factors for the adoption of Internet Financial Reporting,

1. Firm Size
2. Information Technology
3. Listed companies in New York Stock Exchange

The results of this study are highly reliable because it includes 660 companies from 22 countries. Chinese companies have voluntarily adapted IFR. Xiao et al. (2004) has analyzed the factors involved in this process and also the extent of disclosure of information. This trend has been studied with the help of innovation diffusion theory, nature of auditor, type of listing, structure of stock ownership and Government rules and regulations. Study of 300 Chinese companies found out the firms' choice of Internet Financial Reporting is dependent on the characteristics of their environment.

Larrán and Giner (2002) studied the practices of Internet Financial Reporting carried out by firms in Madrid Stock Exchange. Their study concluded that size of the firm is the major determinant of the quality and level of information disclosed to the online community. Lybaert (2002) studied the behavior of Internet Financial Reporting of the companies of Netherland in the Amsterdam Exchange Index for the first 2 weeks of July 2000. He found out that there was a noticeable difference in the quality of reporting, its completeness and the means utilized to carry out these reporting.

The Internet Financial Reporting behavior is generally the same in a single sector as compared to the entire index. Bonsón and Escobar (2002) studied the relationship among degree of voluntary information disclosed by 20 companies of European Union countries with industry sector, size and country. These three variables have a major impact on the degree of voluntary disclosure made by the firms through Internet Financial Reporting. Allam and Lymer (2003) studied the process of Internet Financial Reporting methods of 50 major companies of Australia, United Kingdom, United States of America, Hong Kong and Canada in the late 2001 and early 2002. Their study concluded that firms are using state of the art technologies for IFR and there is an increasing trend in the disclosure of financial information through internet. As compared to the rest of the sample Canada United States of America and United Kingdom have a high level of disclosure of information. Only Australian companies show no relationship between size and the extent of disclosure of information.

According to Lodhia et al. (2004) Internet Financial Reporting is in its initial stages in Australia and the existing methods do not utilize the full potential of the internet facility for the purpose of disclosure of information. There is very little change found in the financial reporting methods of the companies introduced to the technology of internet. Laswad et al. (2005) studied the relationship between Internet Financial Reporting practices and leverage, press visibility, political competition, types of local municipalities' size and municipal health in the municipalities of New Zealand. According to the results there exists a relationship between press visibilities, types of local municipalities, municipal health and leverage with the Internet Financial Reporting methods of local municipalities of New Zealand. Keeping growth, profitability, size and industry as control variables the Internet Financial Reporting of listed companies in London is associated with measures of corporate governance, for example CEO duality, director holding, director independence and analyst following (Abdelsalam et al., 2007).

Ettredge et al. (2002b) examined the timely Internet Financial Reporting of the companies by studying the difference in time period of filed reports with the Security and Exchange Commission and the time on which these reports are published on the companies' official websites. This research indicates a negative relationship between profitability of the firms and delay in the disclosure of financial information through internet. Contrary to these results the delay in the disclosure of financial information has a positive relationship with linkage to the Security and Exchange Commission's EDGAR. For the companies listed on Alexandria and Cairo stock exchanges of Egypt the effect of corporate governance on timely availability of internet financial reporting was studied by (Ezat & El-Masry, 2008). They concluded that there is a significant relation between timely availability of internet financial reporting and size of the firm, industry type, ownership structure, board size, board composition and liquidity.

According to Ettredge et al. (2001) more information is disclosed by big corporations and their study concluded that 38% of information provided through Internet Financial Reporting is related to accounting and 30% is related to finance by studying investor relations and directors' perception of IFR. They also found out that Internet Financial Reporting is a cheap way of creating goodwill with stakeholders of the firm and that the corporate websites of firms are an essential part of communication with investors. Chu (2001) studied Internet Financial Reporting in Taiwan's firms and find out that companies are likely to disclose past information. They also concluded that profit of the firms and Internet Financial Reporting has a positive relationship. Historical studies outside Taiwan indicate that Internet Financial reporting in concerned more about the people who provide information instead of people who use information. A study conducted by Yan and Tseng (2001) showed similar results as the study conducted by Chu (2001). As summarized above there are many studies conducted on Internet Financial Reporting but none of those studies have found a relationship between a company's share prices and their IFR practices.

Determinants of Internet Financial Reporting

Firm Size

Elsayed et al. (2010) investigated the effect of firm characteristics and corporate governance on internet financial reporting of listed companies on Egyptian stock exchange. They designed a disclosure index for measuring internet financial reporting for listed companies on Egyptian stock exchange by using a checklist. The outcomes show a significant relation between size of firm and internet financial reporting. As large firms are more observable and thereby, possibly will be more expected for detailed disclosure of information. For justification of expected positive relation of size of the firm and voluntary disclosure practices, numerous reasons have been presented. According to Ashbaugh et al. (1999) economics of scale propose large companies are more expected to show financial reports on their websites. Besides that, political cost hypothesis expects that large firms have strong incentive for enhancing their public image and corporate status, as they are publicly more noticeable. Furthermore, Hossain et al. (1994) argues that larger companies are stimulated for greater voluntary disclosure counting internet financial reporting for maintaining or creation of demands for their securities. The above conceptual arguments offer support for more voluntary disclosure by larger companies.

MVBV

Frankel et al. (1999) says that companies try to alleviate information asymmetry of high growth companies by adopting additional means of disclosures such as conference calls or internet financial reporting. Though, a contrasting view is also there, saying that, as the proprietary cost connected with information disclosures rises, managers will not as much willing to disclose proprietary information. This is due to the fact that the level of information disclosure threshold increases with the owner's costs, and investors limit the possession of less information (Verrecchia, 1983 and Richardson, 2001). This is particularly important for high intangible and high growth companies, because such information may put them at a competitive disadvantage if such information is disclosed. So, we assume a two-stage condition of the connection between growth-intangible and internet financial reporting.

Leverage

Xiao et al. (2004) used a multifaceted framework of internet financial reporting: presentation methods, content, voluntary and mandatory items. They developed an index for disclosure of eighty-two items, in which twenty-four associated to presentation format. They state that in Chinese listed companies leverage positively affect IFR presentation. Ismail (2002) examined the level of internet financial information by Gulf Co-operation Council countries. The outcomes presented that the chances of a company using IFR not only depends on specific characteristic, but also on a group of interaction effects among company characteristics.

However, studies did not find any significant evidence on the relation between IFR and leverage. Some studies show significantly negative relation (Mitchell et al. 1995; Hossain et al. 1995 and Xiao et al., 2004), while other shows significantly negative relation (Meek et al., 1995), and Brennanand and Hourigan (2000) conducted study and concludes that there is an insignificant relationship. For this purpose, a study needed to find out the relationship of leverage and internet financial leverage in Pakistan.

FRNLST

Listing on foreign stock exchanges is assumed by companies that their cost of capital structure is more competitive as they are able of issuing securities in markets having higher liquidity and with lower cost of capital. Along with this more benefits of listing on foreign stock exchanges are enhancing corporate image, broader marketing of products and getting political acceptance by projecting company in the foreign markets as "local" (Biddle & Saudagaran, 1991). Saudagaran and Biddle (1995) say that the bonds and securities cross border transactions have grown rapidly for last 25 years. According to Ports and Rey (2000), temporal and geographic information asymmetry increases with ownership's dispersion across country borders. Such types of information asymmetry can be reduced by internet financial reporting as it instantaneously disseminates information world widely. Meek and Gray (1989), studied voluntary disclosure and found direct relation between disclosure and foreign listing. A binary variable having value of 0 for domestic listing and 1 for having domestic listing as well as foreign listing too was used.

Hypotheses

Hypotheses developed for the study are as follows.

H1: There is a relationship between firm size and internet financial reporting.

H2: There is a relationship between market value to book value and internet financial reporting.

H3: There is a relationship between leverage and internet financial reporting.

H4: There is a relationship between foreign listing and internet financial reporting.

RESEARCH METHODOLOGY

Data Collection

Population of the study is all commercial banks listed in Pakistan Stock Exchanges. According to the sources of State Bank of Pakistan there are thirty one commercial banks listed in Pakistan. These include five public sector commercial banks, twenty two private sector commercial banks and four foreign banks. This study is based on all the commercial banks listed in Pakistan while data have been collected from 2012 to 2016. Data for all the study variables have been collected from annual reports of concerned banks.

OPERATIONAL DEFINITION OF VARIABLES

Internet Financial Reporting

Internet financial reporting (IFR) is calculated by the disclosure index used by Debreceny et al. (2001).

Size

Size is company size in terms of market capitalization which is calculated as

SIZE = (No. of shares outstanding* share price)

Market Value to Book Value (MVBV)

Market Value to Book Value is the ratio between

MVBV = (Market Value / Book Value)

Leverage (LEV)

Leverage is Financial Leverage of the company which is calculated as
LEV = (Debt / equity).

Foreign Listing (FRNLST)

Foreign listing is listing of the company on any foreign stock exchange other than Pakistani stock exchange, which is calculated as
FRNLST = (0) If company is not listed on any foreign stock exchange.
FRNLST = (1) If company is listed on any foreign stock Exchange.

Statistical Model

Data Analysis

Descriptive Statistics

Table 1 : Descriptive Statistics

	Mean	Std. Dev.	Min	Max
IFR	0 .0147375	0.01082	0.01639	0.0723
SIZE	0 .1575902	0.10803	0.19893	0.4872
MVBV	0 .6171885	0 .1306	0 .3851	0.9171
LEV	0.6379877	0.1404	0.3116	0.8884

Table 1 shows the descriptive statistics of the data. Internet financial reporting has a mean of 0.014 and standard deviation of 0.01. Firm size has mean of 0.157 and standard deviation of 0.1083. The ratio of market to book value has a mean of 0.1617 and standard deviation of 0.13. Firm leverage has a mean of 0.637 and standard deviation of 0.1404.

CORRELATION ANALYSIS

Table 2: Correlation Analysis

		IFR	SIZE	MVBV	LEV	FRNLST
IFR		1				
SIZE		.245	1			
MVBV		.221	.777	1		
LEV		.207	.144	-.048	1	
FRNLST		0.214	0.413	0.111	0.241	1

The above table shows the correlation analysis of the study. The table shows that there is a positive correlation (0.245) between IFR and SIZE. It shows that as size of the firm increases its internet financial reporting also increases. The correlation between IFR and MVBV is 0.221 which shows a positive correlation between these two variables. The correlation between IFR and LEV is 0.207 which also shows a positive association between these two variables.

Breuch-Pagan LM Test

Table 3: Breuch-Pagan LM Test

Dependent Variable	X^2- Value	P_value
Internet Financial Reporting	26.71	0.001

Table 3 shows test result of Bresuch Pagan LM test. This test decides the selection of pooled OLS model or fixed effect or random effect model. The null hypothesis for this test is that intercepts and slopes are similar across firms. The significant P-Value of chi-square statistics show that the null hypothesis of similar intercepts and slopes are rejected. Therefore, fixed effect or random effect is better estimates as compared to pooled OLS model.

Test result for Autocorrelation

Table 3: Test result for Autocorrelation

Wooldridge test for autocorrelation
H_0 : No first order Autocorrelation F(9) = 63.132 Prob> F = 0.0412

This study used Wooldridge test for autocorrelation in panel data. The null hypothesis was that there is no autocorrelation in the data. The test reported F statistic value of 63.132 with probability value of 0.0432. The results therefore indicate that there is no problem of autocorrelation in the data.

Heteroscedasticity Statistics

Table 4: Heteroscedasticity Statistics

Breush- pagan/ Cook- Weisberg test for heteroscedasticity
Ho: Constant variance Chi2(1) = 32.22 Prob> chi2= 0.0752

The study used Breush-Pagan test to check panel level heteroscedasticity in the data. The hypothesis for this test was that the error variance was homoscedastic. The test reported chi-square value of 32.22 and probability value of 0.0752. The null hypothesis is accepted as the chi-square value is insignificant at 5% significance level. It is therefore concluded that there is no problem of heteroscedasticity in the data.

Fixed Effect Model

Table 5: Test Results of Fixed Effect Model

Variables	Coefficients	Standard Error	T-Values	P-Values
SIZE	0.0888	0.026	3.41	0.017
MVBV	0.0326	0.0148	2.20	0.027
LEV	0.054	0.043	1.23	0.218
FRNLST	0.0027	0.014	0.18	0.855
R-Square	25.83%			
F-Statistic	4.30 (0.0013)			

Dependent Variable = Internet Financial Reporting (IFR)

Random effect Model

Table 6: Test Result of Random Effect Model

Variables	Coefficients	Standard Error	T-Values	P-Values
SIZE	0.044	0.274	0.16	0.872
MVBV	0.002	0.041	0.06	0.949
LEV	0.041	0.345	0.12	0.903
FRNLST	0.0024	0.0099	0.25	0.804
R-Square	12.48			
Wald Chi	39.59 (0.000)			

Dependent Variable = Internet Financial Reporting (IFR)

Hausman Test

Table 7 : Test Result of Hausman Test

Test Summary	Chi-Sq Statistic		Prob.
Cross-section random	51.65		0.000

In order to choose between fixed and random effects model, the Hausman test was used. The null hypothesis of the Hausman test was that the random effects model was preferred to the fixed effects model. The Hausman test reported a chi-square of 51.6 with a p-value of 0.000 implying that the chi-square value obtained was statistically significant. The researcher therefore rejected the null hypothesis that random effects model was preferred to fixed effect model.

Using Internet Financial Reporting (IFR) as dependent variable the study tested a set of hypothesis related with the determinants of internet financial reporting in Pakistan. The regression analysis shows R-Square value of 25.83%, which shows that fifty one percent variations in internet financial reporting in Pakistan are due to firm size, firm ratio of market value to its book value and firm leverage. Firm size and ratio of market value to book value have significant positive impact on internet financial reporting. These results are according to the studies of Elsayed et al. (2010), Ashbaugh et al. (1999) and Richardson, 2001). On the other hand, firm leverage and foreign listing have insignificant positive impact on internet financial reporting for commercial banks in Pakistan. These results are according to the studies of Ismail (2002), Ports and Rey (2000) and Xiao et al. (2004).

CONCLUSION

This study is based on the determinants of internet financial reporting in banking sector of Pakistan. Firm size, ratio of market value to book value, firm leverage and firm foreign listing were used as variables to explain the internet financial reporting in commercial banking sector of Pakistan. The result shows that there is a positive association among internet financial reporting, firm size, firm leverage and foreign listing. The result further concluded that firm size and ratio of market value to book value have significant positive impact on internet financial reporting while firm leverage and foreign listing have insignificant positive impact on internet financial reporting for commercial banks in Pakistan. The internet financial reporting was calculated by adopting the disclosure index used by Debreceny et al. (2001). Other variables like ownership structure, profitability and non-performing loans can be used as other determinants to explore their effects on internet financial reporting. A framework should be developed by policy makers and regulators in Pakistan to make internet financial reporting mandatory instead of using it a voluntary option. This will further improve the financial information disclosure, its transparency and also will make the information accessible for various stakeholders.

Further studies can be carried out to incorporate the variables of corporate governance, audit quality and research can be conducted to incorporate a standardized web based financial reporting in Pakistan. This study can also be extended to manufacturing sector of Pakistan and cross comparisons should be made with respect to other countries in the region.

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