“THE INFLUENCE OF PROFITABILITY ON INTERNET FINANCIAL REPORTING DISCLOSURE”

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ABSTRACT

The study aims to examine the effect of profitability to the level of internet financial report disclosure by Indonesian listed companies. The profitability is measured by earnings per share, net profit margin, return on equity, pay-out ratio and addition control variables as firm size and return on asset. The study modifies and uses the disclosure index of Aly, et al. (2010). The sample in this study uses purposive and cluster sampling of 214 companies from all sectors of listed companies in Indonesian Stock Exchange for the year of 2015. Multiple regression analysis is used to examine the influence of profitability towards internet financial reporting. It is found that the profitability ratios had no positive effects on internet financial reporting. This result shows that companies in Indonesia do not relies on profitability when they disseminate financial information on their official web sites because the company performance does not affect society to legitimise that the internet is the medium that they use to view financial information.

Keywords: *financial report, internet, profitability*

INTRODUCTION

Research Background

Nowadays, the internet has become an increasingly important means of communication because it has several benefits and characteristics as an essential tool to disseminate information such as easy to spread, no boundaries from country to country, real-time because people could easily access the information right at the time when the information uploaded on web site, relatively inexpensive, and high frequency interaction because people could access the information whenever they are (Ashbaugh, et al., 1999). Internet is also integrated the text, image, multimedia sound, video, and user interaction with corporate database (Debreceny, et al., 2002). Along with the rapid development and the interest of using internet, communication for business through internet is considered as necessary tool for spreading information. Internet is deemed as one of main intermediary, thus the information about company’s performance are reachable for all the investor around the world, other creditors, shareholders, and analysts, instead of using the conservative medium (Ashbaugh, et al., 1999). Therefore, using the internet for business and financial disclosure on the firm website will deliver better information to stakeholders (Gakhar, 2012).

According to Abdelsalam (2007), there is an additional intermediary on presentation of financial statement through internet or website which is later called as Internet Financial Reporting (IFR). Furthermore, Hossain, et al. (2012) argued that the first study of accounting disclosure on the internet were done by Petravick & Gillett (1996). This study revealed that 31% of listed companies on the US was the first to make their complete financial reports available on the Internet in 1995. Meanwhile in Indonesia, Badan Pengawas Pasar Modal dan Lembaga Keuangan (2012) stated that all financial information are mandatory to upload in company's website as on Keputusan Ketua Badan Pengawas Pasar Modal NOMOR: KEP-431/BL/2012 and for the last few years, IFR appeared and evolved as the fastest medium to inform issues related to the company. Although the phenomenon of IFR growing rapidly, but BAPEPAM-LK has no specific rules regulating disclosure of IFR and it makes a gap between the companies in IFR practice. Some companies only disclose part of information with another format such as multimedia and analytics in financial report. The absence of specific rules governing disclosure of IFR also makes the difference in quality of report which delivered in company's website. In other word, there are other determinants for company to disclose more information in their official website besides the government rule itself.

LITERATURE REVIEW

Legitimacy Theory

Legitimacy theory asserts that the company is constantly assured if its activities and performance are acceptable to the public, thus making the company more 'legitimate' (Deegan, 2016). Performance of the company is referred to the profit where the profit is the optimal measure of corporate performance. To obtain the legitimacy from society, the company should also look to consider the rights of wider community, not only its investors. The disclosure of public information via the internet is one way to increase the legitimacy of the company because the internet has an advantage where the information provided by the company can be accessed anywhere and having high frequency interaction because it has no boundaries from country to country, anytime because people could easily access the information right at the time, and by anyone which is not only its investors, but it is also potential investors or stakeholders (Deegan, 2016).

Profitability

The success of a company is usually seen on the company's ability to generate profits. Profitability according to Subramanyam & Wild (2010) is a summary of the net result of operating activities of business in a given period are expressed in financial terms. This financial term commonly called the ratio. Profitability ratio includes the profit margin, rate of return on equity, and earnings per share. There are four measurements of profitability used in this study which are earnings per share (EPS), net profit margin (NPM), return on equity (ROE), and pay-out ratio.

The studies conducted by Aly, et al. (2010); Almilia (2008); Al-Moghaiwli (2009); and Momany, et al. (2014) showed that the profitability affect the degree of voluntary disclosure in IFR. Although several studies also revealed that there was no relationship between profitability and IFR disclosure. The study conducted by Aly, et al. (2010) on Egyptian listed companies in the Egyptian Stock Exchange for the year 2006 showed that profitability measured by ROE is the determinants of the amount and presentation formatting of information disclosed on Egyptian companies' website. The study proved that ROE has positive relationship to the disclosure of financial information on their websites and use more formatting techniques to simplify the acquisition of the information from their websites.

The study conducted by Al-Moghaiwli (2009) also found a significant relationship between engagement of profitability and IFR. The study conducted in 25 listed companies on Doha Securities Market (DSM). The results showed that DSM listed companies that using IFR have greater ROA than companies that are not using IFR. This means that the greater the profitability, then the company is more likely engage in IFR. Another study of relationship between profitability and IFR is also proven by Momany, et al. (2014) which surveyed 127 companies listed in Amman Stock Exchange (ASE) for the year ended 2008/2009 and the results show that 87 Jordanian companies have official websites, 44 out 87 companies disseminate financial reports and 32 of them disseminate all financial information on their websites, and profitability are the main determinants for the Total Disclosure Index but not for the Financial Disclosure Index. The results also showed that financial sectors is more advanced in terms of using the internet to disseminate information compared to the industrial and services sectors.

Control Variables

Control variables are the firm size and return on asset. These two control variables are used in research because of previous research, such as; Marston & Polei (2004); Al-Moghaiwli (2009); and Hossain, et al. (2012) had always significantly affect the internet financial reporting. In addition, assets are also part of profitability where total assets are related to the return on asset ratio, which describes the performance of the company viewed from its management of asset.

Total assets represent the amount of capital invested by the investor in the company. Therefore, the greater the value of total assets, the greater the size of the company. The degree of voluntary disclosure in company would be improved, along with the size of company. It is because the greater of firm size, the higher the public demands on disclosure of information compared to the size of smaller company. Thus, the greater size of company will disclose higher information because they had to meet the public demands (Hossain, et al., 2012).

The ability of a company's management at using its assets to generate earnings could be one of indicator of how profitable the company is. Return on asset displayed as percentage and sometimes referred to return on investment. The percentage of return value comes from the net income divided by its total assets. (Kieso, et al., 2011).

Internet Financial Reporting

The way corporations overspread the information of financial performance by using its web site alludes to Internet Financial Reporting (Nurunnabi & Hossain, 2012). IFR itself appears as a part of the voluntary disclosure. According to Scott

(2012), the voluntary disclosure is that the disclosure of information beyond the minimum requirement of International Financial Reporting Standards and other reporting standards. Beaver (1968) in Lai, et al., (2010) argues that a great benefit for the company to disclose as much information as possible so that stakeholders are able to distinguish between good companies and the bad ones. IFR underpins dynamic types of presentation that are not accessible in the paper worldview, for instance, direct client association with corporate databases and interactive media sound and video. Regarding content, IFR can incorporate all paper-based substance (e.g. annual reports, 10Ks, 10Qs, public statements, and so forth.) and also extra content (e.g. live and recorded analyst meetings and yearly stockholders meetings) (Debreceny, et al., 2002). The companies using IFR as a media to share financial and nonfinancial information to their stakeholders (Puspitaningrum & Atmini, 2012). In the most countries around the world, it is common to use the internet financial reporting in companies of all sizes. Allam & Lymer (2003) argues that the development of world-wide-web since 1994 motivate this practice to become quick, reflection in large and being the first medium for online reporting.

HYPOTHESIS DEVELOPMENT

Profitability and Internet Financial Reporting

Legitimacy theory stated that the company is constantly assured if its activities and performance are acceptable to the public, thus making the company more 'legitimate'. Furthermore, those external perceptions about companies could be ways by the management of corporate disclosure policies (Deegan, 2016). The company's performance in this research is measured by profitability. The profitability is a main factor of the company because in order to survive, a company must be in a profitable condition and be one of their advantages in financial information. The external perception then making the company have strategy for disclosure their financial information. One of the strategy was making their financial report available on the internet.

H1: Profitability positively affects Internet Financial Reporting disclosure.

RESEARCH METHOD

Sample Size and Data Collection

Population in this study are companies listed in Indonesian Stock Exchange in 2015, having official web sites, and disclose annual report on its website which total in 460 companies. The year of research were chosen because it is the latest data that can be obtained in Indonesian Stock Exchange and the Indonesian economy in 2015 recorded positive developments. This is indicated by the real economic sector (goods, services and resources) that showed economic growth since the second quarter of 2015 despite experiencing economic trend in 2012. Similar thing is also experienced by the non-real sector that the financial system stability is still maintained well, in the midst of rising risks stemming from global financial uncertainty, marked by high profitability (Bank Indonesia, 2015). Sample is determined using cluster sampling method by Slovin formula on each business sector and proportioned equally with totalled of 214 companies. Table 1 shows the proportioned for each business sector.

Table 1
Sample Calculation for Each Sector

No.	Industries Sector	Sample
1.	Agriculture	10
2.	Mining	18
3.	Basic Industry and Chemicals	27
4.	Miscellaneous Industry	18
5.	Consumer Goods Industry	15
6.	Property, Real Estate and Construction	21
7.	Infrastructure, Utilities & Transportation	21
8.	Finance	37
9.	Trade, Services & Investment	47
	Total Sample Company	214

The data collected from annual report of company in 2015 and company's official web site. The value of earnings per share, net profit margin, return on equity, and pay-out ratio were collected as measurement of profitability. The value of total assets as measurement of firm's size and return on asset are also collected.

Construction of Disclosure Index

The model used for measuring the degree of completeness of internet financial reporting published in company's web site is constructed by Aly, et al. (2010) that is named disclosure index. The index is constructed by 88 items which have been adjusted by Bapepam-LK: kep-431/BL/2012 (Please see Appendix 1: Internet Financial Report Index).

In order to measure the degree of completeness of financial reporting published in company's web site, 88 items in internet disclosure index was matched with the contents of company's web site and giving them 1 point for each criteria disclosed and 0 if otherwise. The points from each company will be summed to get the total point. Thus, the total point of items disclosed on each companies will be divided by 88 to get the degree of completeness of IFR.

Empirical Results

Multiple regression analysis is carried out on the 214 Indonesian Public Companies. Data are also transformed before performing the multiple regressions to avoid the problems of normality, homogeneity of variance and outliers. According to Ghozali (2013), the model for multiple regression in this study as follow:

$$IFR = \beta 0 + \beta 1EPS + \beta 2NPM + \beta 3ROE + \beta 4Div + \beta 5SIZE + \beta 6ROA + \varepsilon$$

Note:

IFR	: Internet Financial Reporting
$\beta 0$	: Constanta/Intersep
$\beta 1,2,3,4,5$	: Coeffisien Regression
EPS	: Earnings per Share
NPM	: Net Profit Margin
ROE	: Return on Equity
Div	: Dividend payment

SIZE : Firm Size
ROA : Return on Assets
ε : Error

Descriptive Statistics

Table 2
Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Earnings per share	.02	3344.78	128.8940	297.34815
Net profit margin	.01	111.48	9.6165	12.10497
Return on equity	.05	52.57	9.5179	7.94134
Pay-out ratio	.00	88.94	13.7220	17.47086
Firm size	3.46	9.16	6.5811	.98588
Return on asset	.03	45.79	4.8126	5.46653
Internet Financial Report	.50	.85	.7196	.05000

The result shows on Table 4.2 based on the number of 214 data samples (N) companies listed on Indonesian Stock Exchange for the year 2015. The following will explain the results of the descriptive statistics of each variable in this study. In 2015, companies in Indonesia are able to allocate profit for each outstanding share of IDR 128.89, while the percentage of net income companies in Indonesia are able to generate from its revenue on 9.61 percent. Meanwhile, in the form of cash dividends, the shareholders are generally received 13.72 percent its prior year net income of companies.

The results for return on equity and return on asset are not quite different from net profit margin. With the value of natural logarithm of total asset that Indonesian companies had in 2015 which is 6.58, then the companies in Indonesia are able to make a profit of 4.81 percent of its total asset. Meanwhile, the profit that companies make in 2015 from its shareholder's equity are 9.51 percent. The degrees of financial and non-financial disclosure that Indonesian companies did are 71.96 percent which quite good for the companies delivering their information either financial or non-financial ones on their official web sites.

Multiple Regression

Table 3
Multiple Regression Analysis

Variables	Coefficient β	t	Sig.
(Constant)	.696	28.672	.000
Earnings per share	1.907E-005	1.574	.117
Net profit margin	.001	1.641	.102
Return on equity	.001	1.330	.185
Pay-out ratio	8.397E-005	.424	.672
Firm size	.003	.737	.462
Return on asset	-.003	-2.401	.017
F-test = 1.964	Sig. 0.072		
R^2 = 0.054	Adj. R^2 = 0.026		

The hypothesis testing used in this research is multiple regression analysis. Multiple regression analysis is to know the influence of profitability on internet financial reporting disclosure. The result of multiple regression is illustrated in table above. The coefficient of determination is used to determine how influential the independent variable can explain the dependent variable. The table above shows the result of the coefficient determination (adjusted R square). The calculation results of multiple regression analysis show that the influence of profitability and control variables on dependent variable is 2.6 percent. It means that 2.6 percent of practice on internet financial report can be explained by its profitability. The remaining 97.4 percent can be explained by other variables which is not included in this research model.

The F value showed on multiple regression model in the table 4.3 is 1.964 with the significance value at 0.072 which is higher than 0.05, then it is concluded that profitability with proxies of earnings per share, net profit margin, return on equity, and pay-out ratio along with control variables which is firm size and return on asset does not affect the dependent variable which the practice of internet financial reporting.

Classic Assumption Test

Multicollinearity Test

Table 4
Multicollinearity Test Result

Variables	Tolerance	VIF
Earnings per share	.881	1.136
Net profit margin	.579	1.726
Return on equity	.350	2.858
Pay-out ratio	.955	1.047
Firm size	.850	1.176
Return on asset	.283	3.533

The multicollinearity test shows that there is no correlation among independent variables. It is proven from Tolerance value which is higher than 0.10 and Variance Inflation Factor (VIF) which is lower than 10. Thus, it can be concluded that non-multicollinearity assumptions are fulfilled.

Heteroscedasticity Test

Table 5
Heteroscedasticity Test Result

Variables	Sig.	Tolerance	VIF
Earnings per share	.386	.881	1.136
Net profit margin	.532	.579	1.726
Return on equity	.616	.350	2.858
Pay-out ratio	.756	.955	1.047
Firm size	.698	.850	1.176
Return on asset	.904	.283	3.533

The heteroscedasticity test uses the glejser test. The table shows that the significance value on independent variables are all higher than 0.05. Thus, it can be concluded that there is no heteroscedasticity or the homoscedasticity are fulfilled.

Normality Test

Table 6
One-Sample Kolmogorov-Smirnov Test Result

	Unstandardized Residual
Kolmogorov-Smirnov Z	1.149
Asymp. Sig. (2-tailed)	.143

To test the normality of the data distribution, statistical test which Kolmogrov-Smirnov is using to test and compare the data with significance. It is to observe if the probability of asympg.sig (2- tailed) is more than 0.05 or 5% thus one of the requirements of parametric statistical analysis has been met. From the results in table 6, it can be concluded that the variables have abnormal distribution which have significance value at 0.143 or the normality assumption test is fulfilled.

DISCUSSIONS

The results of the research analysis indicate that profitability cannot be used as an indication of company's doing financial reporting through internet. The results of this study are not in line with research conducted by Aly, et al. (2010); Al-Moghaiwli (2009); Momany, et al. (2014); Ismail (2002); Hadi (2005) and Almilia (2008) which states that profit affects companies to perform disclosure of financial reporting through the internet. Thus, this result shows that companies in Indonesia do not relies on profitability when they disseminate financial information on their official web sites because the company performance does not affect society to legitimise that the internet is the medium that they use to view financial information.

Furthermore in control variables which are firm size and return on assets. They both had no positive effect on the financial reporting disclosure through the internet with significant value higher than 0.05. The results of return on assets in this study are inconsistent with research conducted by Almilia (2008); Al-Moghaiwli (2009); and Momany, et al. (2014). Increasing the size of the company will not increase the disclosure of financial reporting through the internet by the company's management. Thus, the bigger a company nor percentage of profitability earns from its assets, is not followed by the greater the chances of the company's management to attract investors to invest and raise a company's legitimacy by using the internet to spread the company's information.

Although the size of the company and return on assets do not have positive effect on the disclosure of financial reporting through the internet, this does not change the results of hypothesis in this study is due to the size of the company and return on assets only serves as variable control that helps the coefficient determination higher and controls the relationship between the profitability of the company on the disclosure of financial reporting through Internet.

CONCLUSION

This study aims to prove an indication of a positive relationship between the profitability of public companies in Indonesia on 2015 with the practice of financial information disclosure via the internet. The results of this study prove that the profitability does not affect internet financial report positively. It is found that none of measurement on profitability ratios has positive effects on internet financial reporting. In overall, this result shows that management of public companies listed in Indonesian Stock Exchange do not relies on profitability when they disseminate financial information on their official web sites because the company performance does not affect society to legitimise that the internet is the medium that they use to view financial information. Means as a developing country, the society in Indonesia do not relies on company's performance when it comes to view financial information. The results of this study are inconsistent with study conducted by Aly, et al. (2010); Al-Moghaiwli (2009); Momany, et al. (2014); Ismail (2002); Hadi (2005) and Almilia (2008). The cause of differences in the results is due to the different state and the object of studies, where this study was conducted in Indonesia so that the object of study is different as well as the type of business, and has a profitability measurement other than return on equity and return on asset.

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