
IMPACT OF COMPANY SIZE ON INTERNET FINANCIAL REPORTING: THE CASE OF REAL ESTATE INDUSTRY IN GCC

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IMPACT OF COMPANY SIZE ON INTERNET FINANCIAL REPORTING: THE CASE OF REAL ESTATE INDUSTRY IN GCC

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Key Findings

- The Real Estate and Development Industry shows a slightly above average level of Internet Financial Reporting practices.
- The level of Internet Financial Reporting is significantly positively correlated with market capitalization. This correlation is heightened at the IFR Content section and not the IFR Presentation Format section.
- The larger the Company Size; the more the motivation and tendency of voluntarily disclosing financial information on the Company website.

“Shareholders are entitled to information about the company they own”. This truth has always been a conflict object that both parties engaging in a transaction fought over from the earliest days of trade. The common practice was to disseminate printed Annual Reports to different shareholders around the world. Traditions however, changed with the start of 1990s and the introduction of the internet. Companies started using this new low-cost and fast mass communication tool to disseminate Financial Information.

As such, inspired by the extensive reliance of companies around the world on their websites to distribute information, this research work has chosen the GCC countries to study the practices and level of IFR of the listed companies, especially Real Estate and Development ones. This study works on identifying company size as a variable impacting the level of Internet Financial Reporting.

Internet Financial Reporting (IFR) is a relatively new practice that started gaining popularity and interest starting mid-1990s. In simple words, IFR is the process of disseminating business information in digital format by posting it on the company website.

With the emerging of the Internet as a medium of communication, companies around the world used this advancement for their benefit. They decided on using the Internet as a means of communicating financial reporting (Khan, 2007). Coupled with the development of the World Wide Web (www), the IFR practice has witnessed rapid development and has lately been transformed to being the primary source of communication with shareholders and stakeholders affected by the news published by companies (Allam & Lymer, 2003).

Subsequently, the traditional paper-based corporate reporting is losing stand against this modern means of transmitting data. Traditional methods are considered more time consuming since it takes companies months to prepare and mail out these documents to rightful stakeholders. Hence, the traditional means is turning out to be less useful to decision-makers (Davey & Homkajohn, 2004, Dierker, & Subrahmanyam, 2017). The reliance on the internet was further fueled by the fact that the internet is cheap and at the same time a very powerful communication device.

Based on the aforementioned reality, many companies are reporting all or part of their financial information on their website (Hindi & Riza, 2010). However, so many other companies still lack in presenting adequate material on their websites. Moreover, each country has its practice which differs in sophistication and extent from other countries

(Mohamed et al., 2009). These differences in practice and extent are the foundation of many kinds of research from the 1990s to date.

The fact that there is no specific regulatory or non-regulatory body that has issued a formal standard to define and highlight the requirements for IFR practices nor how to deal with the internet as a means of communicating company-related information, has created several differences among companies and countries practicing IFR. Furthermore, this lack of uniform practices creates some obstacles for auditors on how to evaluate and assess the fairness of the financial representations. An interesting aspect of the Arab communities is its highly conservative persona and its predilection against revealing internal information to public stakeholders. This work would evaluate such practices and shed light on the importance of such practices.

What is the level of IFR practices by Real Estate & Development firms in GCC?

In my study, I address this question by creating an IFR Index. This index is a checklist composed of 40 items (26 related to the Content and 14 related to Presentation Format). This index was measured by visiting each of the 74 Real Estate & Development companies in GCC and assigning 1 for existing and 0 for non-existing item. There were several advocates of such an IFR checklist, Xiao et al (2004), Omran & Ramdhony (2016), Aly D., Simon J. & Hussainey K. (2010), Alattar, & Al-Khater, (2007). The results are presented in Table 1. As it is shown, the mean of IFR score is 94.5 over 161. The results revealed that the chosen sample which represents the population of all listed RE&D companies in GCC has a mean of 58.89% which reflects above average level of voluntary disclosure. However, the existence of 0 as a minimum level shows that there are still companies lagging behind with this new means of getting financial data across to interested parties.

Table 1. IFR Score Distribution

		IFR Score	IFR Disclosure Content Score	IFR Presentation Format Score	IFR Score Relative
N	Valid	69	74	74	74
	Missing	6	1	1	1
Mean		94.5072	64.0000	30.9459	58.8889
Std. Deviation		30.92668	23.19837	9.10952	18.55318
Minimum		.00	.00	.00	.00
Maximum		135.00	95.00	44.00	83.85

Does the firm Size have any impact on determining the level of adopted IFR?

Starting mid-1990s, after the introduction of the internet as a means of communicating info to interested parties, whether investors, creditors or customers, many researchers attempted to evaluate/assess the practices adopted by companies. Moreover, moving to the 2000s the literature started to witness several explanatory types of research to identify the determinants to IFR. These works attempted to specify some firm-specific factors that influence whether positively or negatively companies' practices of disclosing financial and non-financial info on their company websites.

I chose to study one specific factor in this work which is the Firm Size. An in-depth review of the literature shows that there is a positive association between firm size and the level of IFR (Momany and Al-Shorman, 2006; Ismail, 2002; Damaso and Lourenco, 2011; Xiao et al, 1996). Based on the prior literature, there is a relative consensus that firm size positively impacts internet financial disclosure. This notion takes roots from the fact that large firms face greater demand for information. Moreover, larger firms usually have more products, more complex and broader operations, and more complex distribution networks that require a sophisticated information system to disseminate relevant info to interested parties. Here, information technology presents the means for faster, less costly, and better distribution of information and comprehensive control management. As such they benefit from economies of scale.

Another discussion for larger firms having more IFR is the concept that larger firms are more visible to the potential investors and the public eye. Thus, they are demanded to disclose more information (Martson, 2003; Craven & Matson, 1999). This is also backed by Yassin (2017) with his research on Jordanian listed companies. He claimed that larger firms have larger information requirements and more monitoring costs than smaller ones.

Yusuf (2013) presented another research claiming firms' size having a positive impact on companies' Internet disclosure in his research on Nigerian listed stocks. The work linked this idea to the fact that large companies have a wider stakeholder base and they need to keep up with these wider stakeholder demands. Here, the internet provides a less costly and faster means of communication and provides for reaching a wider audience at the same time surpassing the boundaries of geography and logistics.

Another perspective presented by Al-Shammari (2007) is that larger firms would like to avoid government interventions, and reduce agency cost by trying to minimize information

asymmetry and enhance their public image. Thus, these companies tend to disclose more information through the existing channels. Since the latest channel is the internet, that is company websites, these large companies tend to disclose more information, financial and non-financial on their company websites.

Table 2. Proxies of Firm Size

		Size in Revenues	Size in Total Assets	Classification By Market Cap
N	Valid	69	69	71
	Missing	6	6	4
Mean		327793938.9130	1791129775.0435	1.9296
Std. Deviation		1020745251.50943	4152780313.63439	.76203
Minimum		-1206539.00	19874250.00	1.00
Maximum		6995840775.00	30336277771.00	4.00

There are several proxies that researchers use in order to represent firm size as part of their research work. Table 2 shows the descriptive results of three proxies. As it is clear the first two variables, Revenues and Total Assets revealed major differences among the firms in this study. As such, I relied on Market Capitaliation represented by specific classification. During the data collection, I found out that there is a major difference between the market caps of the companies. As such, I decided on transforming them into 5 categories; as such: 5 for Mega-Cap containing companies with a market cap of higher than 200 Billion dollars, 4 for Large-Cap (10 Billion<Large Cap< 200 Billion), 3 for Mid-Cap (2 Billion<Mid Cap< 10 Billion), 2 for Micro-Cap (50 Million< Micro Cap< 2 Billion), and 1 for Nano-Cap (Less than 50 Million). The mode is 2 meaning that the largest number of companies are Micro-Cap companies followed by Nano-Cap companies as the mean is going towards 1.93. 80% of the sector is composed of Small-Cap Companies.

As a first step on the way to study the relation between size and IFR level, I conducted Pearson Correlation. The results are in Table 3.

Table 3. Pearson Correlation Results

		IFR Score	IFR Disclosure Content Score	IFR Presentation Format Score	IFR Score Relative	Classification By Market Cap
IFR Score	Pearson Correlation	1	.972**	.778**	1.000**	.248*
	Sig. (2-tailed)		.000	.000	.000	.045
	N	69	69	69	69	66
IFR Disclosure Content Score	Pearson Correlation	.972**	1	.616**	.971**	.262*
	Sig. (2-tailed)	.000		.000	.000	.027
	N	69	74	74	74	71
IFR Presentation Format Score	Pearson Correlation	.778**	.616**	1	.778**	.057
	Sig. (2-tailed)	.000	.000		.000	.635
	N	69	74	74	74	71
IFR Score Relative	Pearson Correlation	1.000**	.971**	.778**	1	.237*
	Sig. (2-tailed)	.000	.000	.000		.046
	N	69	74	74	74	71
Classification By Market Cap	Pearson Correlation	.248*	.262*	.057	.237*	1
	Sig. (2-tailed)	.045	.027	.635	.046	
	N	66	71	71	71	71

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

I found out that indeed IFR levels are positively significantly correlated with Firm Size. This is clear with the positive coefficients of IFR level with Market Caps despite them being weak but significant at the level of 0.05. Interestingly, Company size is significantly correlated with the IFR content portion and not the presentation format part. This means that the way financial data is presented is not affected at all if the company is small or large.

The second step was to conduct a regression analysis to learn if Company size is a significant factor in determining the level of IFR. As it is shown in Table 4, the model came up with a very weak R² of 0.056. This was a foreseen issue as all the researchers come up with a set of firm specific factors that are suggested to have an impact on IFR: for instance, profitability, leverage, and corporate governance.

Table 4. Model 1 Simple Regression Result

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.237 ^a	.056	.043	18.39597

a. Predictors: (Constant), Classification By Market Cap

Despite its very low R^2 , the model is a valid one. Moreover, the coefficient of Size as a factor determining level of IFR of Real Estate & Development companies in GCC is a significant one at an $\alpha=0.046$ which is significant at less than $\alpha=0.05$. This is shown in Table five below.

Table 5. Regression Model 1 Coefficients

Coefficients ^a				
Unstandardized Coefficients		Standardized Coefficients	t	Sig.
B	Std. Error	Beta		
47.966	5.980		8.021	.000
5.853	2.885	.237	2.028	.046

a. Dependent Variable: IFR Score Relative

Thereby, based on the regression analysis in Model 1, this research further cemented the theory that Size has a positive significant impact. The regression model showed that size expressed in market capitalization has a positive impact on IFR and that this result is a significant one at less than 5% P-value. Several papers like that of Ismail T. (2002), Allam & Lyman (2003), and Agyei – Mensah (2012) raise the question about the positive impact. Against these, the researcher further diminished this viewpoint by the positive significant result. This result might be explained by the fact that 80% of the Real Estate & Development companies are Micro and Nano Cap, which are considered small Cap companies. Small Cap companies reflect that the number of outstanding shares is much lower than in Large and Mega Cap companies; as such they are not keen on continuously explaining results, as they are not under the radar and scrutiny of shareholders and regulators as Large firms are. This is the complete opposite with larger companies that have to be attentive and proactive to possible questions from investors and CMAs. This result was expected and defended fiercely in the literature despite the few questioning ones. Major advocates of this theory are the works of Pervan (2006), Damaso & Lourenco (2011), Alanezi (2009), Abdi, Kacen, and Omri (2018), Miniaoui & Oyelere (2013), Omran & Ramdhony (2016), Agboola & Salawu

(2012), Elfeky (2017), Pozniak (2013), and Scaltrito (2016).

In conclusion, large companies tend to disclose more financial information on their websites due to several facts and convictions; namely large companies being more visible to the public eye and government, having more complex operations needing explanation and finally benefiting from this less costly means to decrease information asymmetry. Inspired by these findings, I would like to further extend my investigation to identify what other company specific factors influence the level of Internet Financial Reporting.

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